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Review of the implementation of IFRS-EU 16

Analysis and monitoring of the IASB project on the implementation of the standard

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REVIEW OF THE IMPLEMENTATION OF IFRS-EU 16.
ANALYSIS AND MONITORING OF THE IASB PROJECT ON
THE IMPLEMENTATION OF THE STANDARD

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This Study meets the specific relevance criteria for the disclosure of matters affecting the application of accounting and auditing standards and the exercise of the powers assigned to the ICAC, as well as the timeliness of its objectives, both in terms of their nature and scope.

The ICAC does not guarantee the accuracy of the data included in the Study.

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List of sections



SECTION 1	
Introduction	7
SECTION 2	
Post-Implementation Review of IFRS 16. Initial progress by the IASB	9
SECTION 3	
Review of the literature on leases	11
SECTION 4	
Amendments to IFRS 16 and IFRS Interpretations Committee Agenda Decisions	13
SECTION 5	
Analysis of issues that are complex to interpret	14
SECTION 6	
Interaction of IFRS 16 with other standards	22
SECTION 7	
Economic effects of IFRS 16 on listed groups in Spain	28
SECTION 8	
Recognition and measurement issues under IFRS 16 identified in the disclosures of corporate groups	39
SECTION 9	
Analysis of IFRS 16 disclosure requirements in the information published by corporate groups	58
SECTION 10	
IFRS 16 and Alternative Performance Measures	78
SECTION 11	
Users' feedback	82
SECTION 12	
Conclusions	89
References	92
Annex 1. Evidence on the treatment of the Lease Liability in the calculation of the gross and net financial debt	94

Contents

1. Introduction	7
2. Post-implementation Review of IFRS 16. Initial progress by the IASB	9
3. Review of the literature on leases	11
4. Amendments to IFRS 16 and IFRS Interpretations Committee Agenda Decisions	13
5. Analysis of issues that are complex to interpret	14
6. Interaction of IFRS 16 with other standards	22
7. Economic effects of IFRS 16 on listed groups in Spain	28
8. Recognition and measurement issues under IFRS 16 identified in the disclosures of corporate groups	39
9. Analysis of IFRS 16 disclosure requirements in the information published by corporate groups	58
10. IFRS 16 and Alternative Performance Measures	78
11. User feedback	82
12. Conclusions	89
References	92
Annex 1. Evidence on the treatment of the Lease Liability in the calculation of the gross and net financial debt	94

1 Introduction

This study is carried out under the agreement between the Accounting and Auditing Institute (ICAC) and the Spanish Association of University Accounting Lecturers (ASEPUC).

The objective is to provide useful information to the ICAC for the consultation procedure that both the *European Financial Reporting Advisory Group* (EFRAG) at European level and the *International Accounting Standards Board* (IASB) at international level will launch as part of the *Post Implementation Review* of IFRS 16 (PIR of IFRS 16).

Post-Implementation Reviews are a periodic process undertaken by the IASB to examine, and where appropriate, update or amend previously issued Standards. This process aims to assess the overall contribution of the Standard to the relevance of financial information provided to users, as well as to identify areas that may require further guidance for its application.

IFRS 16 was issued in January 2016 and became mandatory for annual reporting periods beginning on or after 1 January 2019. Now, in 2024, the review process is being launched and will continue into 2025.

The implementation of IFRS 16 by companies brought about a significant change in the accounting model applied by lessees, without a similar change being introduced in lessor accounting. In this regard, IFRS 16 may, in certain cases, give rise to asymmetry in the accounting treatment of the same contract by the respective counterparties, even where the rights and obligations are symmetrical. Under IAS 17, such asymmetry was far less common, since the models applied by lessees and lessors were largely symmetrical.

This report therefore focuses on lessee accounting, where the most substantial change to the applicable model has occurred.

The report presents data on the quantitative impact of IFRS 16 on listed non-financial groups, distinguishing between large-cap companies (IBEX 35 index) and those in the remainder of the continuous market. The study has been supplemented with a short questionnaire completed by analysts (nine in total), including five credit analysts and four investment analysts.

In view of the above, the report seeks to address the objectives set out by the IASB for the Post-implementation Review of IFRS 16. In general terms, our opinion, based on the fieldwork undertaken, is that the model introduced by IFRS 16 improves transparency and enhances the usefulness of financial information.

The report also analyses the aspects of IFRS 16 that present greater application complexity, as well as the quality of the disclosures provided in the Notes to the financial statements. Lastly, the topic of leases gives rise to the use of alternative performance measures linked to the calculation of net debt (or net financial debt) and to EBITDA. Accordingly, the study examines how listed non-financial entities in Spain have presented these metrics. One of the findings of this analysis is the clear diversity in the treatment of lease liabilities in the calculation of net financial debt, revealing a degree of heterogeneity in their classification as either operating or financing liabilities.

To meet all of the above objectives, this document is structured as follows:

- After this introduction, Section 2 presents the progress made in the IASB's Post-implementation Review (PIR) of IFRS 16.

- Section 3 provides a brief review of recent academic literature on the effects of IFRS 16, which is of interest in understanding the Standard's impact.
- Section 4 discusses amendments to the Standard and agenda decisions issued by the IFRS Interpretations Committee (IFRIC) since IFRS 16 first became applicable.
- Section 5 focuses on areas where interpretation is particularly challenging, while Section 6 addresses the interaction of IFRS 16 with other Standards. Section 7 presents the impact of IFRS 16 on key financial metrics. This analysis confirms that the leisure (hotels and restaurants), airline and retail (primarily fashion) sectors are those most affected in terms of changes to their reported figures.
- Section 8 provides an analysis of the main recognition and measurement issues identified in non-financial entities.
- Section 9 includes a checklist assessing the disclosures provided in the Notes to the financial statements against the requirements of the Standard. This analysis focuses on non-financial groups in the IBEX 35 index.
- Section 10 addresses the impact of IFRS 16 on alternative performance measures, which are a highly flexible communication tool used by senior management in discussions with analysts.
- Section 11 complements the previous analysis with insights from a group of users on the main effects of IFRS 16 in their work.
- This report ends with the conclusions.

2 Post-Implementation Review of IFRS 16. Initial progress by the IASB

In December 2023, the IASB decided that in the second quarter of 2024 it would begin the Post-implementation Review of IFRS 16 (PIR of IFRS 16), three years after the preparation of the first financial statements in which IFRS 16 was applied (depending on the entity's financial reporting date). The objective of the PIRs is to assess whether the effects resulting from the application of a new Standard on different stakeholder groups are as expected at the time of issuance.

The review will consist of two phases. The first is an investigation phase and will aim to identify matters for discussion with the IFRS Interpretations Committee, the IASB's advisory groups, and other interested parties. Following this phase, a Request for Information will be published, with a 120-day public comment period during which feedback may be submitted. This phase is expected to conclude in the first quarter of 2025, with the Request for Information issued in the first half of 2025. The second phase will analyse the feedback received and will determine whether the matters raised should lead to standard-setting action.

In deciding whether to undertake standard-setting action, the IASB considers whether there is evidence that:

- There are fundamental questions (that is, 'fatal flaws') about the clarity and suitability of the core objectives or principles in the new requirements.
- The benefits to users are lower than expected.
- The costs of application are greater than expected.

The IASB prioritises standard-setting action based on the following criteria: the matter could have substantial consequences; the matter is pervasive; the matter can be addressed by the IASB or the IFRS Interpretations Committee; and the benefits of taking action outweigh the associated costs.

In the case of the PIR of IFRS 16, the following will be analysed:

- The objective of the new requirements is being met.
- The benefits to users are broadly as expected. These objectives were to:
 - Reduce the need for users to make adjustments and reduce the need for entities to provide alternative performance measures.
 - Improve comparability between entities that lease assets (as lessees) and entities that borrow to buy assets.

- Provide more transparent information about leases to all market participants because entities would more accurately measure assets and liabilities than the adjustments made by more sophisticated analysts.
- The costs of application and auditing are broadly as expected when the new requirements were issued. These costs include:
 - Costs to set up systems and processes, including educating staff.
 - Determining the discount rates used to measure lease assets and lease liabilities.
 - Communicating changes to reported information to external parties.
 - The IASB expected ongoing costs to be only marginally higher compared to those incurred when applying IAS 17.

EFrag conducted a survey of users and preparers to support its response to the IASB. The survey had reasonable coverage, receiving 40 responses: 33 from preparers and 7 from users.

The overall assessment of the Standard was more positive than negative. Users assessed the Standard slightly more favourably (57%) than preparers (52%). Users reported a clear improvement in transparency, particularly regarding levels of indebtedness and in information that supports the estimate of future cash flows related to leases. They also considered that comparability had improved and that the costs of obtaining information had decreased significantly. However, the scale of the change led to increased use of alternative performance measures designed to isolate the effect of IFRS 16. This has been used as a way of offsetting changes in reported figures and loss of consistency in applied criteria.

A specific concern raised by some users is that differences remain between US GAAP and IFRS (even though IFRS 16 and ASC 842 are similar). These users suggest that additional disclosures could help mitigate this lack of comparability. It was also noted that although some opportunities for transaction structuring remain, they have been significantly limited by IFRS 16.

Preparers highlighted that the main costs arose from the adjustment of certain key performance indicators (KPIs), the implementation of IFRS 16-compliant software, and the capture and maintenance of lease data. This group also acknowledged improvements in internal control and higher quality and transparency of information. Preparers, auditors, and national standard-setters also noted that the exercise of judgement in some areas of IFRS 16 (particularly with respect to the lease term and discount rate) may affect comparability.

The assessment of the Standard confirmed that the sector and number of lease contracts influence these views.

In September 2024, the IFRS Interpretations Committee of the IASB will consider an initial paper identifying matters for Phase 1 of the PIR of IFRS 16.

3 Review of the literature on leases

Prior to the issuance and effective date of IFRS 16, the academic literature extensively examined the impact and relevance of capitalising operating leases for lessees.

To estimate the amounts to be recognised, various authors generally applied the constructive method developed by Imhoff Jr. & Lipe (1991, 1997). This method relies on the lease disclosures provided by entities in the Notes to the financial statements under the previous accounting standards (IAS 17 under IFRS). Entities were required to disclose the total future minimum lease payments under non-cancellable operating leases for specified future periods. Typically, variables such as lease term, discount rate, tax rate and payment structure were estimated using generic assumptions applied across all entities in the sample, with varying degrees of objective basis and without tailoring to each entity's specific circumstances. The most relevant studies regarding an *ex-ante* analysis of the impact of lease capitalisation (covering the period from 2007 to 2016) are Mulford and Gram (2007), Durocher (2008), Fülbier *et al.* (2008), Duke *et al.* (2009), Singh (2012), Grossman and Grossman (2010), Bryan *et al.* (2010), Fitó *et al.* (2013), Wong and Joshi (2015) and Pardo *et al.* (2018). The empirical evidence from these studies (as well as others published prior to 2007) generally indicates that operating leases gave rise to off-balance sheet financing, which improved leverage and profitability ratios (due to lower recognised assets and lower operating expenses). The quantitative impact of capitalising operating leases (i.e. the relative increase in assets and liabilities) varies depending on the sample and methodology used.

A second approach to capitalising off-balance sheet lease payments is the factor method. This method is widely used by credit rating agencies, such as Moody's (2015), to estimate the off-balance sheet debt arising from leases. It essentially consists of multiplying the current lease expense by a specified multiple, which varies by sector. The result is an estimate of the present value of total minimum future lease payments. This method is used less frequently in the accounting literature. Some authors use it to compare results with those obtained under the constructive method (see, for example, Fülbier *et al.* 240). This method may be considered more aligned with market assumptions. Credit rating agencies generally use it to calculate credit ratings, and many market participants base their economic decisions on those ratings. In this regard, the method reflects market expectations regarding the future lease payments required.

Morales and Zamora (2018) argued that these studies were conducted prior to the issuance of the final version of IFRS 16 and therefore do not take into account relevant aspects that influence lease assets and liabilities, such as the definition of the lease term. Moreover, these authors, rather than following Imhoff's methodology based on minimum payments for estimating lease payments, estimated actual payments using multiples, as well as contract durations based on the type of asset and the information published by companies. In their study, based on a sample of listed European companies, they showed that, upon the capitalisation of operating leases, companies would experience a substantial increase in their levels of leverage, assets and liabilities, with the most affected sectors being retail, transport and hospitality. However, they did not find a consistent effect on operating profitability.

In Spain, Esteban and González (2020) studied the effect of IFRS 16 on Spanish listed non-financial groups in the first year of its application. The authors observed that right-of-use assets represented 4.7% of the value of total assets, while lease liabilities accounted for 12.7% of interest-bearing liabil-

ities. In the income statement, they noted that gross operating profit increased by 8% compared to the previous year, indicating that had IFRS 16 not been applied, it would have decreased by 0.2%, implying a positive impact of 8.2% on gross operating profit (GOP). The most affected sectors were retail and hospitality, which recorded a 19.7% increase in the value of their assets and a 71.3% increase in interest-bearing debt. For its part, AECA (2022), using data from the Banco de España's Central Balance Sheet Data Office, determined that lease liabilities represented 4.07 times the lease expense, as measured by the median. The leased assets were primarily land and buildings, except in the case of the airline IAG, where these were concentrated, to a significant extent, in aircraft.

The estimation of the discount rate under IFRS 16 remains one of the unresolved issues in the literature, and there continues to be diversity in practice. In the case of former finance leases, it is generally possible to use the interest rate implicit in the lease, which is typically stated in the contract. However, for capitalised operating leases, the discount rate generally needs to be estimated by taking into account factors such as currency, term, the lessee's specific credit risk or the collateral represented by the leased asset itself. This is known as the incremental borrowing rate (IBR).

For estimating the IBR, Delgado, Morales and Zamora (2022, 2023) proposed two methods. One involves replicating the change in the yield of a given bond when there is a change in the loss given default (LGD), usually due to a change in seniority. The other uses quoted information from Credit Default Swaps (CDS) as a basis for introducing an adjustment to the standard IBR. More specifically, the change in the initial IBR to determine the collateral adjustment is based on the change in the CDS spread in response to changes in the recovery rate.

Regarding the level of transparency and opacity of the information provided under this Standard, Utami *et al.* (2023) conclude that the market response depends on the company and country context. Although IFRS 16 leads to more accurate asset measurements, it can also create opacity due to the increased complexity in the financial statements. The market reaction in Korea was observed by Choi and Kim (2021), who present evidence, through an event study conducted around the publication of a standard equivalent to IFRS 16, that companies experienced negative market reactions where there was greater reliance on operating lease contracts and tighter financial constraints. This appears to indicate, in this context, that the Standard enhances the transparency of financial statements. However, this market reaction was not observed by Giner and Pardo (2018) in the Spanish context, although the data used were estimates based on pre-IFRS 16 accounting information.

Another effect that has been studied is whether companies have changed their lease contracting policies compared to those in place prior to entry into force of IFRS 16. Lau (2023) concluded that the implementation of IFRS 16 has had significant economic consequences, particularly for companies with high levels of leverage. Many of them adjusted their leasing policies to avoid breaches of debt covenants, leading to a decrease in the reliance on operating leases prior to the effective date of IFRS 16.

4 Amendments to IFRS 16 and IFRS Interpretations Committee Agenda Decisions

IFRS 16 has been subject to four amendments to the Standard:

- May 2020. COVID-19-Related Rent Concessions.
- August 2020. Phase 2: Interest Rate Benchmark Reform.
- March 2021: COVID-19-Related Rent Concessions beyond 30 June 2021.
- September 2022: Lease Liability in a Sale and Leaseback.

In addition, the IFRS Interpretations Committee has undertaken extensive interpretative work and, since the issuance of the Standard, has published nine Agenda Decisions on the following matters:

- July 2019: Subsurface Rights.
- September 2019: Lessee's Incremental Borrowing Rate.
- January 2020: Definition of a Lease: Shipping Contract.
- January 2020: Lease Term and Useful Life of Leasehold Improvements.
- June 2020: Sale and Leaseback with Variable Payments.
- October 2021: Non-refundable VAT on Lease Payments.
- December 2021: Economic Benefits from Use of a Windfarm.
- October 2022: Lessor Forgiveness of Lease Payments.
- April 2023: Definition of a lease: Substitution rights.

To some extent, the volume of consultations was influenced by the exceptional circumstances arising from the pandemic, which affected the interpretation of lease contracts, as well as by reforms in other areas that had an impact on lease arrangements. One indicator of the intensity of application of this Standard is that, in the case of the revenue Standard (IFRS 15), the IFRS Interpretations Committee has issued only six Agenda Decisions since 2016, although the Standard was amended with a substantial number of clarifications.

The number of matters submitted to the IFRS Interpretations Committee, along with the amendments to the Standard, highlights that IFRS 16 is a relatively complex Standard to apply.

5 Analysis of issues that are complex to interpret

This section covers a number of matters where the lease accounting requirements are difficult to interpret. EFRAG (2024) conducted a survey of preparers, users, auditors and standard setters, which highlighted several issues discussed below.

A) The recognition and measurement matters considered to **involve more judgement and, as such, may give rise to significant diversity** are as follows:

- **Estimate of the lease term** as this is a process that is subject to highly subjective assessment.
- **Determination of the discount rate.** There is considerable diversity in practice, and the Standard requirement is very theoretical, heavily reliant on judgement, and very costly, as it requires a large volume of information.
- **Identification of a lease:** The difficulties focus on:
 - The assessment of whether the lessee directs the use, including the consideration of principal and agent and the assessment of “*substantially all of the economic benefits*”.
 - The assessment of substantive substitution rights retained by the lessor.
 - The identification of leases embedded within a service contract.
- **Separation of leases and non-lease components.** This is especially complex in Power Purchase Agreements (PPAs) and in multi-component contracts.

B) At a **second level are the requirements that are complex** in their application. These would be as follows:

- Accounting for **contract modifications**. This is a complex matter in sectors with a large number of leases and subject to multiple contractual modifications.
- **Low-value asset exemption.** It is questioned whether the indicative threshold of US\$5,000 is consistent with the assessment of materiality.

C) At a **third level of priority** are matters that lack sufficient guidance in IFRS 16. These are as follows:

- **Sale and leaseback transactions.** Issues arise such as the determination of the unit of account when part of an asset is leased. In addition, it is noted that the guidance to determine whether there is initially a sale is not clear in this scenario (for example, when the sale contract includes a purchase option or when the lease term, including extension options, covers substantially the entire useful life of the asset).
- **Determination of lease payments.** Participants point to several aspects:
 - Lack of clarity on when a payment is in-substance fixed or variable.

- The lessee's accounting for certain rent discounts may not reflect the economic substance. An example is how to account for a rent discount granted because the lessor has made improvements to the leased asset.
- The remeasurement of right-of-use assets and lease liabilities when a variable payment is linked to an index that becomes available with a delay, requiring a retrospective adjustment.
- The accounting for variable lease payments is not consistent with other Standards (IFRS 15, IFRS 9) or with other transactions such as sale and leaseback transactions.
- The treatment of **non-cash consideration** for the right to use the leased asset is not addressed in the Standard, and applying the solution used in other transactions may generate diversity in practice.
- Distinction between **leases and in-substance purchases**, referred to in IFRS 16. BC138-140. In-substance purchases are leases that have the same effect as the purchase of assets; for example, lease contracts that include a purchase option that is reasonably certain to be exercised; however, IFRS 16 considers that in such situations, purchase options are part of the lease payments (IFRS 16.27).
- The absence of guidance on **costs incurred before the leased assets are operational**. IFRS 16 only addresses initial direct costs, which are those incurred to bring the asset to the customer's premises.
- Accounting for **leases with non-consecutive period**. There has been an indication that there is insufficient guidance on how to determine the lease term and the depreciation period of the right-of-use asset. The definitions included in Appendix A of the standard include the term "period of use" as "*The total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time)*". One of the foundations of IFRS 16 is that the delivery of the leased asset by the lessor in a non-cancellable lease means that the contract is not executory and, therefore, the contractual obligation is a liability. However, if the lessor undertakes to make successive deliveries of the leased asset, this would constitute several executory contracts corresponding to each of the successive periods.

This extensive evidence gathered in Europe is representative of the main matters arising in connection with the application of IFRS 16. The most important are discussed below.

5.1. Variable lease payments

In applying the "capitalization model" established in IFRS 16 for the lessee, the lessee must calculate the initial measurement of the lease liability as the present value of future lease payments (IFRS 16.26). The initial measurement of the right-of-use asset also includes, among other items, the initial measurement of the lease liability (IFRS 16.24), and therefore also reflects the present value of future lease payments.

According to Appendix A of IFRS 16 (and paragraph 27), "lease payments" include:

- a) Fixed payments (including in-substance fixed payments), less any lease incentives.
- b) Variable lease payments that depend on an index or a rate.
- c) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.
- d) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

With regard to paragraph "b" ("variable lease payments that depend on an index or a rate"), this refers only to payments linked to a price index (such as the CPI in Spain), a benchmark interest rate (such as Euribor in the euro area), or changes in market rental rates for that type of asset (IFRS 16.28). Other variable payments (i.e. that do not "depend on an index or a rate") are not included in the

on-balance sheet model. Instead, they are recognised as an expense in profit or loss in the period in which they are incurred (IFRS 16.38(b)). Examples of such payments include: per-kilometre charges for vehicles, per-flight-hour charges for aircraft, payments based on the number of customers in a premises, or payments based on the number of units produced when leasing machinery.

This means that a large volume of future payments related to the lease contract are not capitalised (i.e. not recognised as lease liabilities), which reduces comparability in the financial statements. A very common case is the leasing of land for wind farms, in which the landowner is usually paid based on the volume of wind. These are contracts with a large volume of future payments that are not recognised as lease liabilities. This affects ratios and, consequently, the image that may be conveyed to analysts, etc.

It is important to note that in 2022 the IASB introduced an amendment to IFRS 16 (paragraph 102A was added). Under this amendment, in a sale and leaseback transaction, the seller-lessee initially recognises a liability for the estimated variable payments. This is because, otherwise, a gain might be recognised that does not correspond to the sale and leaseback transaction, since it would relate to the part of the asset sold over which control is retained through a right-of-use. Therefore, there is an inconsistency with what was described above, because in these cases, the liability is in fact recognised.

5.2. Discount rate (IBR)

In applying the “capitalization model” established in IFRS 16 for the lessee, the lessee must calculate the initial measurement of the lease liability as the present value of future lease payments (IFRS 16.26). The initial measurement of the right-of-use asset also includes, among other items, the initial measurement of the lease liability (IFRS 16.24), and therefore also reflects the present value of future lease payments.

“Present value” means discounting. For discounting purposes, IFRS 16 allows two alternative interest rates:

- Preferably, the “*interest rate implicit in the lease*” (as defined in Appendix A to IFRS 16) should be used.
- Alternatively, the “*lessee’s incremental borrowing rate*” (or IBR) (also defined in Appendix A to IFRS 16) may be used.

The interest rate used has a major influence on the amount of the lease asset and liability recognised (see quantitative analysis in Morales-Díaz and Zamora-Ramírez, 2018). Basically, the higher the interest rate, the lower the initial amount of the asset and liability, and the higher the interest and depreciation expenses.

It is easy to verify (through disclosures in the financial statements) that the vast majority of lessee companies use the IBR rather than the interest rate implicit in the lease, as evidenced by an empirical study by Delgado-Vaquero *et al.* (2022). The IASB itself acknowledges in the Basis for Conclusions to IFRS 16 (paragraph IFRS 16. BC161) that entities generally do not have sufficient information to calculate the interest rate implicit in the lease.

Estimating the IBR (i.e. the interest rate at which the company would borrow) can be broken down into two parts or steps:

- **Step 1.** Estimating the interest rate on a loan issued with the same maturity as the lease (IFRS, 2019, p. 6). This rate may be relatively easy to obtain if the entity has traded bonds or has recently obtained a loan with a maturity similar to the lease¹. Otherwise (i.e. if such information is not available), the entity’s credit risk must be estimated (via a rating issued by an official agency or a

¹ It is important to consider that, for these purposes, the lease term does not mean the date of the last payment. In most cases, it is assumed that the principal (the depreciation of the leased asset) is paid with each instalment. This would be similar to a loan under a French amortisation system.

theoretical rating), and the market yield for similar transactions (same maturity, currency, industry, etc.) must be identified.

- **Step 2.** In most cases, the above interest rate must be adjusted to reflect the recovery rate associated with the leased asset. IFRS 16.FC.161 makes it clear that the IBR must consider "*nature and quality of the collateral*". According to the IFRIC, "*In determining its incremental borrowing rate, the Board explained in paragraph BC162 that, depending on the nature of the underlying asset and the terms and conditions of the lease, a lessee may be able to refer to a rate that is readily observable as a starting point. A lessee would then adjust such an observable rate as is needed to determine its incremental borrowing rate as defined in IFRS 16.*" (IFRIC, 2019a).

Not only can this step be complex (and lead to diversity in practice, as discussed in Step 1), but with regard to Step 2, there are various techniques (with differing outcomes) and, furthermore, in many cases the step is not carried out at all (due to its difficulty).

Although this is not addressed in the standard, if the basis used is the interest rate of a listed debt instrument in Step 1, another possible adjustment is for liquidity. The interest rate of a lease will theoretically have a liquidity spread relative to the bond due to the greater difficulty of selling it at any time. That is, under equal credit risk conditions, the interest rate of a lease is generally higher than the interest rate of a bond (or even a loan).

This latter adjustment is not carried out in practice, and therefore the incremental borrowing rate does not represent the actual lease interest rate in the vast majority of cases. It is not considered that the loan market and the lease market are different.

IBR is not a new concept introduced by IFRS 16. A similar concept exists in IAS 17 and thus in the Spanish General Accounting Plan (PGC). However, in the context of IAS 17 it was only used for finance leases (in cases where the interest rate implicit in the lease was not available) (IAS 17.20). Under IAS 17, on the one hand (and from the lessee's perspective), most leases were operating leases, and for those that were finance leases, the interest rate implicit in the lease was generally stated in the contract.

5.3. Lease term

When applying the capitalization model required by IFRS 16 for the lessee, the initial value of the lease liability is calculated as the present value of the lease payments during the "lease term". The initial measurement of the right-of-use asset also includes the initial measurement of the lease liability (IFRS 16.24), and therefore also includes the present value of the future payments during the "lease term".

The lease term is defined, by the Standard (IFRS 16.18), as "the non-cancellable period of a lease, together with:

- a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option".

In fixed-term lease contracts, there is no uncertainty regarding the lease term. A fixed-term lease contract is one that does not contain options to extend or terminate in favour of the lessee or in which such options are implicit (both parties to the contract must agree to extend or terminate)²³.

2 An additional period related to a "tacit" option is not considered as it is not binding on either party. See IFRS 16.B34 and IFRIC (2019b).

3 In the case of an extension option held by the lessor, the additional period is always considered (IFRS 16.B35).

However, if extension or termination options in favour of the lessee exist⁴, it is necessary to estimate the term in accordance with the guidance included in IFRS 16 (paragraphs B37 to B41). This guidance refers to factors such as:

- The contractual terms and conditions for the optional periods compared with market rates.
- Significant leasehold improvements undertaken (or expected to be undertaken) that are expected to have significant economic benefit when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable.
- Costs relating to the termination of the lease.
- The importance of that underlying asset to the lessee's operations.
- Conditionality associated with exercising the option.

The term "reasonably certain" generally assumes a high probability of the option being exercised (EY, 2024, Chapter 23, section 4.4.1.A).

A company with multiple leased assets (such as premises) must implement a system to make an automatic decision on the lease term, considering a combination of factors such as: how far in the future the option may be exercised, how long the additional period is, the economic situation of the business conducted in the premises, the investments made in the premises, etc.

Estimates are highly subjective and may result in a lack of comparability. Furthermore, when there is a change in the estimate of the lease term, the lease liability must be remeasured using a new IBR (IFRS 16.45).

5.4. Definition of lease applicable to Power Purchase Agreements (PPAs)

One type of contract that, in recent years, has grown significantly among all types of companies is the Power Purchase Agreement (PPA). In 2023, Spain was, for the fifth consecutive year, the leading European country in new PPAs signed, both in MWh and in number of contracts (Pexapark, 2024).

A PPA is a long-term clean energy purchase agreement from a specific asset (renewable energy generation facility), at a fixed price, between a renewable developer and a consumer (generally, companies that require large amounts of electricity), or between a developer and a supplier that will resell the energy.

That is, it is a bilateral contract between the energy generator (owner of the plant/asset) and the buyer of the energy. The term is usually between 5 and 20 years.

The first accounting question faced by companies that enter into this type of contract is to what extent the PPA should be recognised as a derivative (within the scope of IFRS 9) or as an executory contract. The analysis to be carried out to determine the above is essentially developed in paragraphs 2.4 to 2.7 of IFRS 9 (see full description in Morales-Díaz, J. et al., 2021). In general (although it depends on the case), "virtual PPAs" are usually considered derivatives, and "physical PPAs" executory contracts. However, each case must be analysed in detail in accordance with IFRS 9.

Finally, if the PPA is considered for accounting purposes to be an executory contract (because the "own-use exception" in paragraph 2.4 of IFRS 9⁵ applies), companies must perform a second analysis related to IFRS 16⁶.

⁴ Or even purchase options.

⁵ As of the date of preparation of this report, there is a draft amendment to IFRS 9 to clarify (among other matters) certain aspects of the application of the "own use exemption" to PPAs. The draft was issued in May 2024 and is open for comment until 7 August 2024.

⁶ The IFRIC clarified in 2021 that, in the case of a derivative, the PPA cannot be considered a lease (see IFRS Interpretations Committee, 2021).

This second analysis consists in determining whether the PPA contract is considered a lease within the scope of IFRS 16, through which the owner of the electricity generation facility is not selling energy to the buyer, but is essentially leasing the facility to the latter.

In accordance with paragraphs 9 to 11 and B9 to B31 of IFRS 16, the analysis is based on the fulfilment of three requirements or conditions. Only if all three are met is the PPA contract considered a lease. In most PPAs, the analysis is usually as follows:

- **Condition 1. Existence of an identified asset.** There must be an identified asset that is the subject of the contract (the wind or solar farm from which the electricity is generated).
- **Condition 2. Right to obtain all economic benefits.** Let us assume that the customer has the right to obtain all or substantially all of the energy produced by the plant, as well as the certificates of origin (which is very common in practice), so condition 2 would also be met.
- **Condition 3. Right to direct the use of the asset.** This condition is the most complex to analyse. In accordance with paragraph B24 of IFRS 16, in these cases (PPAs), it is generally concluded that the relevant decisions regarding how and for what purpose the asset is used are predetermined (see, for example, EY, 2021: 240). The facility simply generates electricity depending on the sun or the wind, and there are no relevant decisions to be made regarding its use. Therefore, it is necessary to analyse whether the customer has the right to operate the asset (which is usually not the case), or whether the customer has designed the asset (*"in a way that predetermines how and for what purpose the asset will be used throughout the period of use"*).

In short, the decision focuses on whether the customer (the company receiving the energy) has designed the asset, which is highly subjective. There are two positions in practice:

- To consider that the customer generally does not have significant expertise in the design and construction of a solar or wind energy generating asset. (EY, 2021, p.9). Under this position, it would be unusual for a PPA to be considered a lease from an accounting point of view.
- To consider that the customer has at least intervened in aspects such as: the type of panels, the size of the facility, etc. The entity may even have a regular advisor for this type of installation (distinct from the builder) for the panel design. Under this position, a PPA could be considered a lease.

At present there is no uniform approach and there is great diversity in practice. Further guidance would be needed on this aspect.

For Deloitte (2023): *"It is expected that the assessment of whether the customer has designed the asset will require entities to exercise significant judgement due to the varying levels of influence a customer may have over the design decisions. A customer may often be involved in some, but not all, design decisions. Where this is the case, the assessment should focus on whether the customer made the design decisions that most significantly affect the economic benefits to be derived from use of the asset."*

The design decisions that most significantly affect the economic benefits of use will differ depending on the nature of the asset and the technologies used. For example, for renewable energy generation assets, the most significant design decisions might often involve a combination of the following:

- *determining the technical functionality (e.g. overall capacity);*
- *selecting the specific generation equipment (e.g. wind turbines or solar panels) and the quantity to be installed; and/or*
- *selecting the location and layout of the site.*

The assessment should also consider whether the customer's involvement was limited to providing general guidelines that the supplier was to follow, or whether the customer was specific in setting the design. For example, when designing a solar farm, did the customer:

- *indicate a minimum capacity to be reached or specify the exact number of solar panels to be installed; and/or*

- *require that the solar farm be located a certain number of kilometres from the interconnection point or identify the exact plot of land and surface area?*

Where the customer provides general guidelines, it is necessary to assess whether these are nonetheless specific enough that the decisions left to the supplier do not significantly affect the economic benefits of using the asset (.).".

It is true that, in most PPAs, all payments made by the lessee depend on sunlight or wind, so they would be variable payments that do not depend on an index or rate (IFRS 16.28). This means that, from the perspective of the potential lessee, the capitalization model would not apply. Therefore, it would merely be a matter of disclosure, since under IFRS 16 all payments would be variable and under IFRS 9 we would have an executory contract.

5.5. Payments linked to indices such as the Consumer Price Index (CPI)

As previously explained, when applying the on-balance sheet model for the lessee, variable payments linked to a price index (CPI in the Spanish case) are included.

However, how to account for changes in the CPI (as described in paragraphs 39 to 43 of IFRS 16) is highly complex and makes implementing and maintaining IFRS 16 require a highly advanced and costly system.

According to IFRS 16, the CPI is not initially taken into account. That is, payments are projected using the current lease payment. Subsequently, when the new lease payment is known (because the corresponding price index has been published), the new payments are discounted (using the original interest rate), and the difference with the carrying amount of the lease liability is calculated. This difference is recognised against the right-of-use asset (unless the asset is fully depreciated and the adjustment reduces the liability).

That is, each time the new lease payment is known, it is necessary to recalculate both the lease liability schedule and the right-of-use asset schedule.

Under US GAAP (Topic 842), the system is easier to implement and maintain. Initially (to measure the initial liability), the level of the index at that time is used (Topic 842-10-30-5). Subsequently, any changes in the lease payments are recognised in profit or loss (Topic 842-20-25-6, 842-20-25-6, 842-10-55-231).

5.6. Exception for low-value assets

Paragraph 6 of IFRS 16 includes two voluntary exceptions to the application of the capitalization model by the lessee. One of them relates to assets referred to as "low value" assets.

The lessee may choose not to apply the capitalization model to such leased assets, and instead recognise an expense that may be on a straight-line basis or follow another pattern that better reflects the benefits obtained by the lessee (IFRS 16.6).

The election whether or not to apply the exception for low-value assets is made lease by lease (IFRS 16.8). That is, the choice is independent and unrestricted for each leased asset.

It is important to note that this exception is not included in US GAAP (Topic 842). US GAAP only includes the short-term lease exception.

The exception reduces comparability in the financial statements. A company may have a large volume of future lease payments but not recognise any lease liability due to application of this exception.

Moreover, implementation is subjective. The paragraphs of the standard do not include any criteria for defining the threshold of what is considered "low value". There is only one reference in a paragraph of the Basis for Conclusions (IFRS 16. FC.100). That paragraph states: "*At the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value,*

when new, in the order of magnitude of US\$5,000 or less". In principle, as KPMG (2023: ref. 5.1.140.130) points out, the exception is intended for "small IT equipment (for example, some laptops, computers, tablets, mobile phones, individual printers) and some office furniture, that is, inexpensive assets. The exception is not intended to exclude leases of assets such as vehicles or most photocopiers".

Therefore, each company must decide what threshold to adopt and how to measure it.

6 Interaction of IFRS 16 with other standards

IFRS 16 is a standard that interacts with other accounting standards. EFRAG (2024) has conducted a survey among various stakeholder groups and identified a set of interactions between IFRS 16 and other standards in relation to lessees:

- The distinction between derecognition of a liability (IFRS 9) and modification of a lease liability (IFRS 16).
- Separation of components in a lease (IFRS 16) that must be recognised as revenue because they relate to services (IFRS 15).
- Sale and leaseback transactions. The issue arises in identifying, in some cases, whether there is an initial sale (IFRS 15) of the asset that is subsequently leased back (IFRS 16).

The document also mentions some specific inputs received which, in our view, are already addressed in the standards themselves or in agenda decisions issued to date. These issues are as follows:

- Identification of **purchases in substance and their distinction from leases**, regulated under IAS 16 and not IFRS 16. These types of contracts were previously addressed and the issue already explained.
- The **level of certainty required** to include an extension option (IFRS 16), as compared to the certainty required to estimate useful life (IAS 16), and the impact on improvements made to leased assets.
- The **application of the impairment test** (IAS 36) to right-of-use assets (IFRS 16). Two points arise here: first, unlike the impairment test for assets recognised under IAS 16, there is no “safety net” in the form of residual value for certain owned assets, such as real estate, in the case of right-of-use assets under lease arrangements. The second concerns whether cash flows arising from lease liabilities should be excluded when calculating value in use or fair value less costs of disposal.
- Remeasurement of right-of-use assets and lease liabilities (IFRS 16) in a **business combination** (IFRS 3). At the acquisition date in a business combination, right-of-use assets and lease liabilities are measured at fair value. This measurement basis differs from that used when the lease is entered into, where the lease liability is measured at the present value of future lease payments. This difference does not arise for property, plant and equipment.
- **Sale and leaseback transactions in entities with a single asset** and their connection with IFRS 10. Regarding this type of transaction, the Interpretations Committee has already proposed a standard-setting action, which is currently on the list of outstanding projects.
- **Other interrelationships** IAS 29, due to the different translation approaches applied to the right-of-use asset (a non-monetary asset) and the lease liability (a monetary liability); IAS 37 in relation to onerous lease contracts; and the lack of specific guidance on leases in joint arrangements.

From the lessee’s perspective, the main difficulties may lie in the following points, discussed below.

6.1. Interaction between IFRS 16 and IFRS 9

The full or partial early termination of a lease liability gave rise to an interpretive question as to whether it should be accounted for under IFRS 9 or IFRS 16.

In this regard, it was considered that there was an accounting policy choice. If IFRS 9 (paragraph 2.1(b)(ii)) is applied, the liability would be reduced with a corresponding gain or loss recognised in profit or loss. If IFRS 16.46(b) is applied, the liability reduction would be recognised against the right-of-use asset.

IFRS 9 (paragraph 2.1(b)(ii)) states that the derecognition of a lease liability is within the scope of IFRS 9, referring to paragraph 3.3.1 of that Standard, but not to paragraph 3.3.3, so it was unclear whether the latter could be applied. Paragraph 3.3.3 states that the obligation should be derecognised with a corresponding entry to profit or loss. After being considered by the Interpretations Committee, this matter was included in the Annual Improvements project. In 2024, the amendment was approved to include a reference to paragraph 3.3.3.

EFrag (2023) previously stated that this proposed amendment does not address the underlying issue, which is the connection between IFRS 9 and IFRS 16, leaving unresolved the question of when to apply the lease modification guidance in IFRS 16 versus the derecognition requirements for financial liabilities in IFRS 9. Moreover, EFRAG argued that in such interpretive matters, the most relevant Standard addressing the issue (in this case, IFRS 16) should prevail. EFRAG also pointed out that, for example, in the case of a post-acquisition reduction in the purchase cost of inventory, the carrying amount of the inventory is reduced rather than recognising a gain in profit or loss as required by IFRS 9 (paragraph 2.1(b)(ii)).

IFRS 18 has introduced a distinction between liabilities that involve the receipt of cash and those that do not. Lease liabilities fall into the latter category. From a financial analysis perspective, these liabilities are considered operating liabilities and reduce the amount of capital employed. This category also includes trade payables.

According to this reasoning, when a liability that arises from the receipt of cash is fully or partially cancelled, the corresponding entry is recognised in profit or loss, as the offsetting item is a monetary asset. However, when the liability arises from the acquisition of a non-monetary asset, where that liability was a determining factor in the asset's acquisition cost, its cancellation should result in an adjustment to the carrying amount of the asset. In this case, the right-of-use asset.

Nevertheless, it is understood that the IASB has identified two broad situations:

- Changes in estimates (lease term, options, etc.). IFRS 16 applies, and the right-of-use asset is adjusted. This scenario differs from a debt restructuring under IFRS 9.
- Pure rent renegotiation without any change. This case would be equivalent to a debt restructuring under IFRS 9. As a counterargument to EFRAG's analogy-based approach, it is noted that a downward renegotiation of a liability with a supplier is recognised in profit or loss. It is this second type of case to which the IFRS 9 amendment would apply.

6.2. Separation of components

Paragraph 12 of IFRS 16 requires that, within a single contract, each lease component be accounted for separately from each non-lease component.

If a contract includes more than one lease and/or non-lease component, the total contract consideration must be allocated to each component based on the relative stand-alone price.

Paragraph 15 of IFRS 16 permits lessees only to use a practical expedient⁷ whereby lease and non-lease components are not separated. In this case, each lease component and its associated non-

⁷ The accounting policy choice must be made by class of underlying asset.

lease components are accounted for as a single lease component. This practical expedient cannot be applied to separable embedded derivatives (IFRS 9.4.3.3).

An example would be a vehicle lease that includes maintenance services. In principle, the lease payment would be split between the lease component (the vehicle) and the non-lease component (maintenance services). The lease component would fall under IFRS 16, and the non-lease component would not. However, if the practical expedient in paragraph 15 is applied, no separation is necessary, and all payments are treated as lease payments.

In practice, two unresolved issues with diverse application remain:

- 1) To what extent can the practical expedient be applied in cases where, in the contract, the component that theoretically carries the greatest weight in the total payment is the non-lease component rather than the lease component?
- 2) Allocation of the total contract consideration among components.

6.3. Sale and leaseback

Sale and leaseback transactions are those in which an entity transfers an asset to another entity and subsequently leases back that asset from the same entity.

That is, there is a “seller-lessee” (the original owner of the asset) who sells the asset to a “buyer-lessor”. The buyer-lessor immediately provides the asset back to the seller-lessee under a lease agreement.

When determining the accounting treatment of a sale and leaseback transaction, the entity must not consider only the legal form of the sale and the subsequent lease, but also other transaction forms whose economic substance is the same as a sale and leaseback. For this reason, IFRS 16 clarifies that the economic substance of the arrangement prevails over its legal form (IFRS 16. BC261).

The accounting treatment of sale and leaseback transactions is set out in paragraphs 98 to 103 of IFRS 16.

Under this guidance, the first step is to assess whether the asset transfer qualifies as a “sale” under IFRS 15. If it does not, then the transaction is not considered a sale and leaseback but rather a loan to be recognised under IFRS 9. IFRS 15 addresses this aspect (whether a sale has occurred) in paragraphs 31 to 34, 38 and B64 to B76. The key issue is whether “control” of the asset is transferred to the buyer-lessor in accordance with the indicators in paragraphs 33 and 38 of IFRS 15.

This often creates practical challenges, especially considering that the seller does not physically deliver the asset to the buyer (as it is immediately leased back). The IFRS 15 guidance is often not applicable to such cases. Moreover, if the lease is economically similar to a loan, the accounting treatment for both parties will follow that of a loan under IFRS 16.

The above excludes clear-cut transactions such as a sale with a fixed-price repurchase agreement, which would clearly constitute a financing arrangement (IFRS 15.B66). An equivalent situation would be when the lease covers substantially all of the remaining useful life of the leased asset; in this case, the transaction must be understood as equivalent to a sale with a repurchase agreement.

A second issue is that, if it is ultimately determined that there is a “sale” under IFRS 15, the seller-lessee must measure the right-of-use asset at the proportion of the previous carrying amount that relates to the right-of-use retained. The IFRIC acknowledges (IFRIC, 2020) that IFRS 16 does not describe any method for performing the above calculation, nor any criteria for subsequent measurement. For this reason, in 2022, IFRS 16 was amended to include these criteria. However, the amendment does not include a method for calculating the gain attributable to the transferred asset. This leads to diversity in practice.

One commonly used approach is to compare the following two amounts:

- 1) The fair value of the asset (based on the price at which it was sold).

- 2) The fair value of the portion retained. This second amount would be the present value of the lease payments using the IBR.

The ratio of amount (2) to amount (1) would be the percentage applied to the previous carrying amount of the asset sold in order to retain it as a right-of-use asset. When there are variable payments, these are typically estimated so as to reflect the portion of the services of the asset sold that has not been transferred.

For example, an entity sells a retail space for €2,000,000 and leases it back for a period of five years for an amount determined as a percentage of sales. The estimated lease payments amount to €500,000. The carrying amount of the property is €600,000.

The entity has transferred 75% of the asset that is subsequently leased back, since the best estimate of the services it will retain is €500,000; that is, 25%. Therefore, 25% of the initial carrying amount is retained ($25\% \times €600,000 = €150,000$). The gain to be recognised corresponds to 75% of the profit [$(€2,000,000 - €600,000) \times 75\% = €1,050,000$]. The accounting entry would be:

Cash 2,000,000

Right-of-use asset 150,000

to Lease liability 500,000

a Gains on disposal of assets 1,050,000

to Property, plant and equipment 600,000

This solution has been heavily criticised, as it effectively means recognising *de facto* that it is possible to estimate future payments arising from variable lease payments that are not based on an index, and which, moreover, constitute a liability even though they actually depend on the lessee's discretion⁸.

6.4. Deferred taxes

Deferred tax assets and liabilities must be recognised when there are temporary differences, that is, differences between the carrying amount and the tax base of accounting assets and liabilities (IAS 12, paragraphs 5, 15 and 24; PGC NRV 13.2), applying appropriate prudence in recognising assets in such cases. However, a number of exceptions to this recognition are provided for in the above-mentioned paragraphs:

- (a) the initial recognition of goodwill; or
- (b) the initial recognition of an asset or liability in a transaction which:
 - (i) is not a business combination; and
 - (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

It was this second exception (b) that created the most uncertainty in the application of IFRS 16 (prior to the 2021 amendment to IAS 12). The rationale behind this exception is that it would not be consistent for the balancing entry of a deferred tax to be an asset or liability; instead, it should affect other comprehensive income or, where applicable, goodwill. The reasoning cited in the standard itself is found in paragraphs 22(c) and BC78: if the balancing entry were the asset or liability itself, it would lead to less transparent financial statements.

⁸ Molina, de Vicente and Ortiz (2021) propose an interpretation of such transactions with variable payments in which the transaction is assessed in its entirety. The variability in the cash flows is being attributed to the lease because that is how the contract is structured, but not necessarily because that reflects the underlying economic substance. The variable payments that the seller will make can be interpreted as a reduction in the sale price (variable consideration), since the use of the leased asset enables the seller to generate returns that in turn allow them to recover their initial investment by returning to the buyer the services received. In a sale and leaseback transaction with fixed lease payments, the amount recovered by the seller for the use of the asset is predetermined; but if the lease payments are variable, that recovery is determined as those payments are made. In short, if the variability is linked to the sale price, IFRS 15 provides for recognition of such a liability as variable consideration.

Entities could interpret that, when an asset and a liability of generally equal amount (IAS 12, BC78) arise simultaneously under a lease accounted for in accordance with IFRS 16 and without affecting profit or loss, there was no requirement to recognise the asset and liability for temporary differences. That is, doubts could arise as to whether these simultaneous deferred tax assets and liabilities should be offset, which is prohibited unless the criteria in IAS 12.74 are met, or whether they should reduce the recognised amount of lease assets and liabilities, resulting in less transparent carrying amounts (IAS 12, paragraph 22(c) and BC78).

Another accounting policy would be to consider that the exception did not apply and therefore to recognise both for the same amount, without affecting the carrying amount of the lease assets and liabilities. In other words, not applying the exception in these cases generally does not result in the carrying amounts of lease assets and liabilities being altered on initial recognition due to deferred taxes that may arise. By not applying exception (b), the disadvantages that the exception itself sought to avoid are prevented.

The lack of clarity as to whether the initial recognition exemption applied to transactions that gave rise to an equal taxable and deductible temporary difference led to diversity in practice. Some entities chose not to recognise deferred taxes at the time of initial recognition of the assets and liabilities arising from leases, while others did.

The May 2021 amendment to IAS 12 clarified that the initial recognition exemption does not apply to transactions that, at initial recognition, give rise to equal taxable and deductible temporary differences. This clarification was necessary to reduce diversity in practice and ensure consistent application of the requirements. Thus, a third condition was added to the second exception set out in paragraphs 15 and 24 of IAS 12: that, *at the time of the transaction, it does not give rise to equal taxable and deductible temporary differences*.

These deferred tax assets or liabilities arising on initial recognition of a lease contract result from the differences between the accounting requirements of IFRS 16 and the tax regulations of each jurisdiction, which in the case of Spain are partly determined by the accounting rules in the General Accounting Plan (PGC, Recognition and Measurement Rule 8) and by the tax benefits for deduction of the lease payment under Article 106 of the Corporate Income Tax Act. As a result, the following cases may arise, depending on whether the current Spanish accounting rules are applied or an approach aligned with international standards is adopted:

1. Under the current accounting rules, there are two possibilities:
 - a. That the lease must be accounted for under the PGC in accordance with Recognition and Measurement Rule 8, in which case, in principle, there will be no differences in its accounting treatment under IFRS, which will normally apply in the consolidated financial statements. Both in accounts under the PGC and under IFRS, the deferred taxes that may arise would result from the deduction benefit provided for in Article 106 of the Corporate Income Tax Act, taking into account the limits on such deduction based on the maximum depreciation rates multiplied by the relevant factors, as applicable. The balancing entry for deferred tax liabilities would be profit or loss, and the exception under IAS 12 discussed here would not apply.
 - b. When the lease is recognised as an expense for the year, as it does not meet the criteria of PGC NRV 8, the expense would be recognised on an accrual basis over the relevant lease payments. In individual accounts, no assets or liabilities are recognised in respect of this lease, and consequently, the tax bases of both are zero. In IFRS accounts, both deferred tax assets and liabilities would arise in relation to the initial recognition of the asset and liability under the lease. Under the IAS 12 amendment referred to above, these deferred taxes must be recognised and cannot be offset.
2. In the hypothetical case that the rules of IFRS 16 were adopted in Spanish accounting regulation, in principle, unless there were changes to the applicable tax regulation, two cases could arise:
 - a. Lease contracts that do not qualify for the tax incentives under Article 106 of the Corporate Income Tax Act: in these circumstances, unless there were tax changes, under Article 10.3

of the Act, recognition of the lease would **not** give rise to deferred taxes, as the expenses (depreciation and finance costs) would be deductible as they are recognised in profit or loss.

- b. Lease contracts that do qualify for Article 106 of the Corporate Income Tax Act: the outcome would be the same as in the previous case, but as a result of a tax advantage from a higher deductibility of the depreciation expense based on the lease payment, a deferred tax liability would arise progressively due to the higher deductibility of the tax expense compared with the accounting expense. This liability would reverse when the asset is fully depreciated for tax purposes and still subject to depreciation for accounting purposes.

6.5. Leases denominated in foreign currency

In cases where lease payments are denominated in a foreign currency, the procedure to follow when applying the on-balance sheet model is as follows (IFRS 16.BC196 to BC199):

- The lease liability schedule is calculated in the foreign currency using the following process:
 - o Initially, the liability is recognised at the spot exchange rate.
 - o Subsequently, the interest accrual is recognised at the average exchange rate for the period, and the payment at the spot exchange rate on the payment date.
 - o At each reporting date, the entity must compare the carrying amount of the liability with the value of the liability according to the schedule in the foreign currency, translated into the functional currency at the spot rate. The difference is recognised in profit or loss.
- The schedule of the right-of-use asset is calculated in the functional currency using the initial spot exchange rate. No exchange differences are recognised in relation to the right-of-use asset.

The reason why the lease liability gives rise to exchange differences while the right-of-use asset does not is that the former is considered a monetary item (IAS 21.16), and the latter is not. This may cause significant volatility in profit or loss in the case of leases denominated in a foreign currency.

This treatment, on the one hand, entails significant implementation complexity and, on the other hand, is inconsistent with other changes in lease cash flows where changes in the lease liability are recognised against the right-of-use asset (e.g. variable payments based on an index or rate, or changes in estimates of the lease term or exercise of purchase options).

7 Economic effects of IFRS 16 on listed groups in Spain

This section aims to highlight the economic effect of these contracts on the primary financial statements of listed groups in Spain.

As already noted above, the most significant impact of IFRS 16 in relation to the previous standard (IAS 17) is the change in the accounting model applicable to former operating leases from the lessee's perspective. This change of model generally entails the recognition on the balance sheet of new assets called "rights of use" (previously unrecognised), along with the corresponding liabilities arising from contractual obligations (future lease payments).

In the income statement, IFRS 16, in line with the above-mentioned change of model, results in the shift of the operating lease expense (classified under Other operating expenses), which formed part of the expenses determining EBITDA, to the lines for depreciation of the right-of-use asset and finance costs for the interest on the lease liability. Both items, depreciation and interest, are below EBITDA, which logically improves with IFRS 16 compared with its predecessor IAS 17. In addition, as part of the lease expense is reclassified as finance costs, operating profit also improves.

In addition to these impacts, the operating lease expense recognised under IAS 17 was recorded on a straight-line basis; however, with the treatment as depreciation expense (straight-line) and interest expense (declining), under IFRS 16 in comparison with IAS 17, there is a higher total expense in the early years, with a corresponding decrease in later years.

It is important to note that the general Spanish accounting standards (PGC) have not been adapted to IFRS 16 and continue to be based on IAS 17. This means that listed entities applying the PGC in their individual financial statements maintain dual accounting for leases:

- In the consolidated financial statements, leases are regulated under IFRS 16.
- In the individual financial statements governed by the PGC, leases are accounted for in accordance with Recognition and Measurement Standard (NRV) 8, based on IAS 17.

7.1. Impact on the balance sheet:

IFRS 16 introduces two items in the balance sheet for the lessee (in relation to what were previously operating leases). On the asset side, it recognises a resource controlled by the entity, once the lessor has fulfilled the obligation to make the leased asset available: the "right-of-use" asset; and on the liability side, it recognises the contractual commitment, which is recorded under lease liabilities. Below, we present the impacts on these items and how they relate to other figures in the balance sheet.

//// TABLE 1 Amount of right-of-use assets and lease liabilities at the end of 2023

Panel 1. IBEX 35 non-financial groups

Entities	Activity	Right-of-use assets	Non-current liabilities	Current liabilities	% Right-of-use assets / Assets	% Lease / Liabilities
Acciona	Constr. Concess. & Energy	824,000	687,000	124,000	2.60%	2.77%
Acerinox	Manufacturer	18,851	14,456	4,367	0.31%	0.40%
ACS	Constr. & Concess.	613,042	543,162	160,569	1.68%	1.76%
Aena	Concessions	58,396	59,821	12,290	0.33%	0.60%
Amadeus	Technology	203,300	158,100	39,900	1.88%	2.50%
Arcelor	Manufacturer	1,344,000	939,000	207,000	1.43%	2.48%
Cellnext	Telecommunications	3,100,817	2,118,162	696,257	6.99%	7.25%
Colonial	Real Estate	14,557	14,585	1,867	0.12%	0.25%
Enagas	Energy	353,117	323,396	27,322	4.15%	5.87%
Endesa	Energy	810,000	784,000	84,000	1.96%	2.30%
Ferrovial	Constr. & Concess.	196,000	141,000	59,000	0.74%	0.69%
Fluidra	Manufacturer	179,774	153,535	45,531	5.13%	7.95%
Grifols	Pharmaceuticals	945,240	1,004,227	107,101	4.41%	7.46%
IAG	Airline	8,534,000	7,141,000	1,826,000	22.65%	20.76%
Iberdrola	Energy	2,488,000	2,408,000	184,000	1.66%	2.68%
Inditex	Retail	5,097,000	4,123,000	1,428,000	15.57%	29.32%
Indra	Engineering	119,025	99,154	24,829	2.52%	2.76%
Logista	Retail	234,588	189,242	53,253	2.91%	2.53%
Mapfre	Insurance	270,300	266,568	42,632	0.49%	0.59%
Meliá	Hotel	1,375,874	1,301,464	147,989	31.02%	33.61%
Naturgy	Energy	1,189,000	1,296,000	167,000	3.14%	4.99%
Redeia	Energy	62,010	39,263	21,649	0.43%	0.44%
Repsol	Energy	1,838,000	2,455,000	516,000	2.98%	7.54%
Rovi	Pharmaceuticals	18,354	13,667	5,125	2.29%	5.33%
Sacyr	Constr. & Concess.	131,760	117,189	47,680	0.76%	0.75%
Solaria	Energy	110,164	105,675	5,134	6.68%	9.39%
Telefónica	Telecommunications	8,448,000	6,708,000	2,239,000	8.10%	8.69%

↑ Source: Prepared by the authors based on information published by the IBEX 35 listed corporate groups. Figures in thousands of euros.

Table 1. Panel 1, relating to the non-financial IBEX groups, shows that the groups with the greatest weight in terms of both right-of-use assets and lease liabilities are the following: Meliá, IAG and Inditex. In a second tier are the telecommunications companies Cellnext and Telefónica. A third group includes several energy companies, a manufacturing company and a pharmaceutical company. In these three groups, the types of assets leased are mainly premises, land or buildings, aircraft, and facilities.

Panel 2, concerning the continuous market groups, shows that leasing is very significant in leisure companies (Amrest and Minor Hotels), consumer companies (Adolfo Domínguez and DIA), or other services (Clínica Baviera and GAM).

In most cases, the value of the right-of-use asset would be expected to be lower than the amount of the lease liability, since the asset is normally depreciated on a straight-line basis, whereas the liability decreases at an accelerating rate. The fact that lease payments are prepaid or that there are additional components to the cost of the right-of-use asset could result in the value of the right-of-use asset exceeding the amount of the lease liability. This unusual situation is observed in several cases where the right-of-use asset exceeds the value of the lease liability. Among the IBEX 35 groups, this occurs in Acciona, Acerinox, Amadeus, Arcelor, Cellnext, and Redeia, while among the continuous market

companies, the excess is slight in cases such as Airbus, Airtificial Intelligence, Dominion, Ecoener, Ence, GAM, Grupo San José, Miquel i Costas, Prisa, and Viscofán.

Panel 2. Non-financial groups on the continuous market that do not belong to the IBEX 35

Entities	Activity	Right-of-use assets	Non-current liabilities	Current liabilities	% Right-of-use assets / Assets	% Lease / Liabilities
A3 Media	Media	4,335	3,202	1,350	0.30%	0.46%
Adolfo Domínguez	Consumer products	37,093	29,815	10,400	32.95%	31.75%
AEDAS Homes	Real estate	2,547	588	2,073	0.13%	0.05%
Airbus	Transport	1,641,000	1,396,000	221,000	1.38%	1.38%
Airtificial Intelligence	Software	4,122	2,702	1,016	2.04%	1.91%
Atlanta Partners	Advisory services	30,653	26,660	6,392	6.38%	22.39%
Almirall	Pharmaceuticals	43,016	37,605	6,206	1.81%	4.13%
Amper	Technology	9,769	8,948	1,389	2.72%	3.05%
AMREST	Leisure	825,600	715,900	171,100	35.11%	36.69%
APERAM	Manufacturing	84,000	84,000	16,000	2.55%	3.62%
APPLUS	Professional services	179,803	133,947	58,652	7.37%	10.40%
ATRYs Health	Health	31,771	26,963	6,442	5.05%	9.85%
AUDAX	Energy	20,511	19,324	1,664	1.58%	1.87%
CAF	Manufacturing	85,678	65,805	22,694	1.70%	2.12%
Azkoyen	Manufacturing	7,843	5,518	2,542	3.65%	8.15%
Bodegas Riojanas	Food and beverages	1,243	671	572	2.20%	3.47%
Borges	Food and beverages	7,695	7,388	582	5.03%	8.53%
CIE Automotive	Manufacturing	77,210	58,713	22,851	1.36%	2.04%
Clínica Baivera	Health	43,497	36,113	8,640	24.35%	51.82%
DIA	Distribution	391,609	285,408	143,665	14.91%	15.92%
Dominion	Consultancy	38,255	12,329	21,100	2.07%	2.19%
Duro Felguera	Engineering	968	801	198	0.29%	0.21%
Ebro Foods	Food and beverages	52,624	50,367	9,160	1.36%	3.61%
Ecoener	Energy	9,935	8,809	640	1.71%	2.14%
Edreams	Leisure	5,414	3,222	2,763	0.47%	0.68%
Elecnor	Engineering	46,685	33,946	15,174	1.15%	1.56%
Ence	Food and beverages	53,928	39,728	5,107	3.17%	4.19%
Ercros	Manufacturing	9,194	4,875	4,385	1.35%	2.89%
Ezentis	Engineering	516	424	93	4.25%	3.00%
Faes Pharma	Pharmaceuticals	6,467	4,373	2,233	0.83%	5.86%
FCC	Construction	417,081	358,372	76,478	2.49%	4.11%
GAM	Business services	126,099	77,597	34,711	23.47%	25.93%
Gestamp	Manufacturing	432,512	368,665	79,260	4.36%	41.97%
Greenenergy	Energy	33,829	50,844	3,043	2.67%	5.84%
Grupo San José	Construction	6,190	n.a.	n.a.	0.54%	0.62%
Grupo Libertas 7	Real Estate	1,470	1,279	237	0.99%	2.88%
Inmobiliaria del Sur	Real Estate	265	120	159	0.05%	0.08%
Innovative Ecosystems	Software	145	0	151	4.79%	0.81%
Laboratorios Reig Jofre	Pharmaceuticals	12,639	9,868	4,879	3.82%	11.68%
Lingotes	Manufacturing	1,400	1,101	299	1.42%	2.65%

MFE	Media	105,400	94,600	17,400	2.10%	5.25%
Minor Hotels	Hotels	1,635,392	1,698,228	260,633	38.91%	61.35%
Miquel i Costas	Manufacturing	1,648	721	401	0.35%	1.02%
Montebalito	Real Estate	245	89	156	0.25%	1.15%
Naturhouse	Manufacturing	2,667	1,778	1,371	5.46%	17.29%
Neinor Homes	Real Estate	3,936	4,158	144	0.24%	0.64%
Nextil	Manufacturing	8,482	9,266	306	20.59%	12.09%
Nicolás Correa	Manufacturing	745	597	198	0.54%	1.27%
NYSESA	Real Estate	176	175	1,466	0.45%	3.94%
OHLA	Construction	62,268	45,089	19,614	1.91%	2.34%
ORYZON Genomics	Pharmaceuticals	497	373	164	0.50%	2.29%
Nueva Pescanova	Food and beverages	5,409	n.a.	n.a.	0.51%	0.71%
Pharmamar	Pharmaceuticals	3,733	1,980	1,828	1.10%	2.59%
PRIM	Real Estate	6,737	4,617	2,147	3.37%	9.11%
PRISA	Media	94,464	49,216	16,062	9.69%	4.65%
Prosegur cash	Business services	111,246	83,294	34,909	5.59%	6.44%
Puig	Retail	287,922	255,561	58,074	3.73%	4.65%
Soltec	Energy	21,092	20,827	2,417	2.87%	3.94%
Squirrel Media	Media	2,751	2,206	784	1.59%	2.76%
Talgo	Transport	2,864	1,210	1,945	0.26%	0.38%
Técnicas Reunidas	Engineering	44,357	25,746	19,897	0.99%	1.09%
Tubacex	Manufacturing	25,850	27,760	0	2.13%	3.04%
Tubos Reunidos	Manufacturing	5,898	5,412	871	1.11%	1.20%
Urbas	Engineering	1,600	4,264	2,462	0.14%	1.23%
Vídrala	Manufacturing	44,446	42,269	3,113	1.79%	3.61%
Viscofán	Manufacturing	11,577	6,854	4,687	0.82%	2.57%
Vocento	Media	17,185	15,088	3,867	3.93%	11.13%

↑ Source: Prepared by the authors based on the consolidated financial statements. Figures in thousands of euros.

7.2. Effect on income statement

In general, as previously noted, at the end of the lease term, the total expense recognised (by the lessee) under IFRS 16 and IAS 17 is the same. However, there are two temporary differences (both related to former operating leases):

- Under IAS 17, the lease expense was generally recognised on a straight-line basis over the lease term, whereas under IFRS 16 it decreases over time.
- Under IAS 17, lease expense was classified as an operating expense. Under IFRS 16, it is split between depreciation of the right-of-use asset and interest expense on the lease liability.

This reclassification has a significant impact on EBITDA. Under IAS 17, the lease expense generally matched the amount paid to the lessor during the year (unless otherwise allocated based on the accrual principle). Under IFRS 16, the amount paid is shown in the statement of cash flows under financing activities, relating to the lease principal repayments. The interest paid is typically disclosed in the Notes. These are the two formulas that will be used:

//// TABLE 2 Main activity-related figures

Panel 1. IBEX 35 non-financial groups

Entities	Payments SCF (1a)	Payment t+1 (1b)	Depreciation of right-of-use assets (2)	Interest (3)	Expense under IAS 17 (4) = (1a or 1b)+ (3)	Operating profit (5)	Depreciation (6)	Profit/loss on disp. & imp. of non-current assets & others (7)	Adjustment for capital grants (8)	EBITDA (9) = (5)+(6)+(7)+(8)
Acciona	161,000	124,000	169,000	43,000	204,000	1,251,000	1,101,000	12,000		2,364,000
Acerinox		4,367	6,146	508	4,875	374,153	17,130	157,031	(8,031)	540,283
ACS	215,935	160,569	186,249	29,497	245,432	2,948,754	551,019	(41,011)	(246)	3,458,516
Aena	9,378	12,290	9,823	1,746	11,124	2,201,418	821,192	(137,643)	(32,565)	2,852,402
Amadeus	44,200	39,900	38,500	5,400	49,600	1,413,900	680,400			2,094,300
Arcerlor	253,000	278,000	235,000	55,000	308,000	2,340,000	2,675,000	1,038,000		6,053,000
Cellnex	650,972	777,281	665,189	327,324	978,296	374,072	2,552,635			2,926,707
Colonial		2,518				(1,119,379)	8,828	1,426,703		316,152
Enagas	38,072	27,322	28,051	7,456	45,528	456,878	273,343	(2,117)		728,104
Endesa			97,000	42,000		1,645,000	1,864,000	268,000	(96,000)	3,681,000
Ferrovial	87,000	59,000	65,000	14,000	101,000	625,000	401,000	35,000		1,061,000
Fluidra	39,992		41,190			236,056	157,820	(948)	(47)	392,881
Grifols	105,852	107,101	78,543	44,587	150,439	799,398	441,918	108,125	(10,260)	1,339,181
IAG	1,731,000	1,826,000	1,077,000	508,000	2,239,000	3,507,000	2,063,000	(2,000)		5,568,000
Iberdrola	248,000	184,000	184,000	79,000	327,000	8,973,000	4,826,000		(310,000)	13,489,000
Inditex	1,733,000	1,619,000	1,482,000	196,000	1,929,000	6,809,000	3,041,000			9,850,000
Indra		32,205	27,820	5,662	37,867	346,994	99,070	965	(22,745)	424,284
Logista	60,355	57,510	16,587	6,265	66,620	293,259	157,653	(696)		450,216
Mapfre		42,632	48,700	19,900	62,532	1,041,100	308,600			1,349,700
Meliá	195,678	182,110	151,516	33,385	229,063	230,999	258,763	(3,400)	(6,100)	480,262
Naturgy			115,000	84,000		3,470,000	1,742,000	(17,000)	(52,000)	5,143,000
Redeia	11,251	21,649	10,736	1,497	12,748	989,670	537,542	(646)	(18,761)	1,507,805
Repsol	613,000	576,000	360,000	171,000	784,000	4,294,000	2,436,000	306,000		7,036,000
Rovi		5,125	4,245	281	5,406	220,254	24,331		(781)	243,804
Sacyr			28,619			1,250,536	158,477	7,375	(1,839)	1,414,549
Solaria	5,449	5,458	3,164	3,035	8,484	168,401	31,476			199,877
Telefónica	2,114,000	2,354,000	2,159,000	435,000	2,549,000	2,593,000	8,797,000	(283,000)	(27,000)	11,080,000

↑ Source: Prepared by the authors based on the consolidated financial statements. Figures in thousands of euros.

Panel 2. Non-financial groups on the continuous market that do not belong to the IBEX 35

Entities	Pay- ments SCF (1a)	Payment t+1 (1b)	Depreciation of right-of- use assets (2)	Interest (3)	Expense under IAS 17 (4) = (1a or 1b)+ (3)	Operating profit (5)	Depreciation (6)	Profit/loss on disp. & imp. of non-current assets & others (7)	Adjustment for capital grants (8)	EBITDA (9) = (5)+(6)+(7)+(8)
A3 Media	1,443	1,350	1,304	178	1,621	155,302	16,754	1,070		173,126
Adolfo Domínguez	12,144	8,849	11,110	789	12,933	3,457	13,862	61		17,380
AEDAS Homes	1,566	2,073	1,582	149	1,715	171,308	4,745	(3,161)		172,893
Airbus		221,000		37,000	37,000	4,300,000	2,242,000			6,542,000
Airtificial Intelligence		2,702	898			1,530				1,530
Atlanta Partners	7,169	6,392	6,699		7,169	220	8,826	1,117		10,163
Almirall	6,913	6,206	6,360		6,913	(5,264)	124,316	48,673		167,725
Amper		1,389	1,440			4,458	14,123			18,581
AMREST	140,700	177,700	136,800	30,200	170,900	103,500	234,500	41,200		379,200
APERAM	15,000	16,000	17,000	7,000	22,000	89,000	204,000			293,000
APPLUS	65,524	59,646	57,942	994	66,518	110,053	179,376	46,687		336,116
ATRYs Health		6,442	7,769	2,017	2,017	(1,844)	29,673	3,169	(421)	30,577
AUDAX	2,512	1,664	1,849	833	3,345	75,127	21,005	3,175		99,307
CAF	27,978	22,694	24,850	3,717	31,695	178,814	104,446	2,415		285,675
Azkoyen	3,083	2,542	2,690	408	3,491	23,051	8,884	(294)	(22)	31,619
Bodegas Riojanas	663	572	581	82	745	749	1,857	(30)		2,576
Borges	1,191	724	636	142	1,333	(2,466)	4,059	99	(68)	1,624
CIE Automotive	25,283	22,851	23,463	3,131	28,414	527,672	185,527			713,199
Clínica Baivera	8,514	8,640	8,121	465	8,979	50,014	16,981	27		67,021
Dominion	23,297	21,100	22,353	1,364	24,661	78,796	66,118	2,696		147,610
Duro Felguera		198				(15,456)	4,518	(958)	(668)	(12,564)
Ebro Foods	11,564	9,160	0	1,703	13,267	276,251	102,874			379,125
Ecoener	728	836	422	113	841	18,654	13,710	1,455	(545)	33,274
Edreams	2,507	2,763	2,572	254	2,761	40,993	37,771	101		78,865
Elecnor	18,574	15,174	16,817	3,417	21,991	104,626	83,717	(29,090)		159,253
Ence	7,381	5,107	4,653	2,364	9,745	(1,980)	101,885	(7,823)	(9,378)	82,704
Ercros	8,140	4,621	7,751	396	8,536	13,039	32,273	(1,006)		44,306
Ezentis		93	171	23	116	(13,001)	635	1,255		(11,111)
Faes Pharma		2,266	2,730			102,814	19,398	26		122,238
FCC	93,799	76,478	76,352	13,303	107,102	910,251	587,377	46,984		1,544,612
GAM	29,547	34,711	16,188	4,407	33,954	23,244	49,621	(822)		72,043
Gestamp	34,335	79,260	82,385	26,623	60,958	680,373	690,822			1,371,195
Greenenergy	1,505	3,043	1,950			86,563	17,946			104,509
Grupo San José		964	7,616	146	1,110	38,828	11,837	534		51,199
Grupo Libertas 7		237	229			4,423	300			4,722
Inmobiliaria del Sur	134	159	146	17	151	22,757	4,013	(8,154)	(11)	18,605
Innovative Ecosystems	247	151		18	265	31,022	1,085			32,107
Laboratorios Reig Jofre		4,879	3,538			10,510	23,145	1,716	(235)	35,136
Lingotes		299	358			4,876	5,847	154		10,877
MFE		17,400	17,100	1,900	19,300	302,300	480,100			782,400
Minor Hotels	272,560	260,633	186,165	85,608	358,168	334,776	292,361	(810)		626,327

Miquel i Costas	401	527			54,920	19,985	461	(1,858)	73,508	
Montebalito	169	160			2,038	185	(494)		1,729	
Naturhouse	1,642	1,371	1,587	63	1,705	16,264	2,263	24	18,551	
Neinor Homes		144	809			111,285	7,494	(7,460)	111,319	
Nextil	1,420	306	1,017	1,134	2,554	(6,780)	3,307	(1,645)	(5,117)	
Nicolás Correa		232	196			12,139	1,987		14,126	
NYSEA						(13,190)	154	11,334	(1,702)	
OHLA	24,500	19,614	22,135	1,688	26,188	90,668	80,162		170,830	
ORYZON Genomics			143	14		(4,531)	295		(4,235)	
Nueva Pescanova			2,694	303	303	37,431	32,264	1,298	70,993	
Pharmamar		1,696	2,043			(3,827)	5,756	(186)	(718)	1,025
PRIM		1,472	2,395			16,012	10,043	(1,576)	(7)	24,471
PRISA	23,800		19,968	6,416	30,216	108,810	70,282	2,037		181,129
Prosegur cash	47,920	34,909	40,680	6,678	54,598	194,065	132,245	9,421		335,731
Puig	62,727	58,074	65,826	5,098	67,825	692,970	169,704	457		863,131
Soltec		1,308	1,653	1,062	2,370	(12,729)	9,581	1,286		(1,862)
Squirrel Media	609	784	624			153,243	3,026	1,250		157,519
Talgo		1,945	2,276			58,973	17,240	39		76,252
Técnicas Reunidas	20,855	19,897	19,931	1,205	22,060	156,598	25,940			182,538
Tubacex			3,210			80,739	44,491			125,230
Tubos Reunidos		871	638	265	1,136	84,319	16,979	5,459		106,757
Urbas		2,462				16,607	9,808	(3,923)		22,492
Vidrala	5,861	3,113	4,624	2,131	7,992	289,838	97,865	5,992		393,695
Viscofán		4,687	5,293			184,686	83,713	486		268,885
Vocento	4,397	3,867	4,101	479	4,876	13,114	25,087	(3,686)		34,515

↑ Source: Prepared by the authors based on the consolidated financial statements. Figures in thousands of euros.

(*) For the calculation of the expense under IAS 17, the lease liability repayments disclosed in the Statement of Cash Flows were used, together with the lease interest expense accrued during the period. Where the repayment figure was not available, the amounts falling due in the following year were used as an approximation.

Expense under IAS 17 = Lease payments in the Statement of Cash Flows (under IFRS 16) + Lease interest disclosed (usually in the Notes under IFRS 16). If no figure was presented in the Statement of Cash Flows, the lease payments due within 12 months were used.

Expense under IFRS 16 = Depreciation of right-of-use assets + Lease interest disclosed. This amount reflects the difference in expense recognition between the IAS 17 and IFRS 16 models.

Table 2 sets out the calculation of the main figures based on information from the income statement and the statement of cash flows.

Table 3 presents the effect of IFRS 16 on EBITDA. On the one hand, the expense that would currently arise under IAS 17 has been estimated. This was done by adding the lease liability repayments to the accrued interest expense. This amount was previously recognised under operating expenses, with an impact on EBITDA. Following the adoption of IFRS 16, these expenses are no longer part of EBITDA, and are therefore considered to reflect the effect of the new standard on EBITDA. On the other hand, this impact has also been determined using an alternative method by adding the depreciation of right-of-use assets and the interest expense on lease liabilities, which are recognised under IFRS 16 (but not under IAS 17). These expenses fall below the EBITDA line, whereas under IAS 17 the expense fully impacted EBITDA. This represents an alternative method for measuring the impact of IFRS 16 on EBITDA.

The EBITDA effects are also concentrated among the same companies for which the impact on the balance sheet was most significant. Among the groups listed on the continuous market, there are also companies with low EBITDA. If lease expense (under IAS 17 or IFRS 16) is divided by EBITDA, the

resulting figure may be particularly high, without this necessarily reflecting the actual significance of leases. In general, the impact on EBITDA is substantial in groups that rely more heavily on the leasing of capital goods.

//// **TABLE 3** Effect on EBITDA and operating profit under IFRS 16 and IAS 17

Panel 1. IBEX 35 non-financial groups

Entities	Activity	Expenses under IAS 17 (1)	Expenses under IFRS 16 (2)	Operating profit (IFRS 16) (3)	EBITDA under IFRS 16 (4)	IFRS 16 expenses/ EBITDA (5) = (2)/(4)	IAS 17 expenses/ EBITDA (6) = (1)/(4)	Effect of IFRS 16/ Op. Profit (7) = [(1)-(2)]/(3)
Acciona	Constr. Concess. & Energy	204,000	212,000	1,251,000	2,364,000	8.97%	8.63%	(0.64%)
Acerinox	Manufacturer	4,875	6,654	374,153	540,283	1.23%	0.90%	(0.48%)
ACS	Constr. & Concess.	245,432	215,746	2,948,754	3,458,516	6.24%	7.10%	1.01%
Aena	Concessions	11,124	11,569	2,201,418	2,852,402	0.41%	0.39%	(0.02%)
Amadeus	Technology	49,600	43,900	1,413,900	2,094,300	2.10%	2.37%	0.40%
Arcerlor	Manufacturer	308,000	290,000	2,340,000	6,053,000	4.79%	5.09%	0.77%
Cellnex	Telecommunications	978,296	992,513	374,072	2,926,707	33.91%	33.43%	(3.80%)
Enagas	Energy	45,528	35,507	456,878	728,104	4.88%	6.25%	2.19%
Endesa	Energy		139,000	1,645,000	3,681,000	3.78%		
Ferrovial	Constr. & Concess.	101,000	79,000	625,000	1,061,000	7.45%	9.52%	3.52%
Grifols	Pharmaceuticals	150,439	123,130	799,398	1,339,181	9.19%	11.23%	3.42%
IAG	Airline	2,239,000	1,585,000	3,507,000	5,568,000	28.47%	40.21%	18.65%
Iberdrola	Energy	327,000	263,000	8,973,000	13,489,000	1.95%	2.42%	0.71%
Inditex	Retail	1,929,000	1,678,000	6,809,000	9,850,000	17.04%	19.58%	3.69%
Indra	Engineering	37,867	33,482	346,994	424,284	7.89%	8.92%	1.26%
Logista	Retail	66,620	22,852	293,259	450,216	5.08%	14.80%	14.92%
Mapfre	Insurance	62,532	68,600	1,041,100	1,349,700	5.08%	4.63%	(0.58%)
Meliá	Hotel	229,063	184,901	230,999	480,262	38.50%	47.70%	19.12%
Naturgy	Energy		199,000	3,470,000	5,143,000	3.87%		
Redeia	Energy	12,748	12,233	989,670	1,507,805	0.81%	0.85%	0.05%
Repsol	Energy	784,000	531,000	4,294,000	7,036,000	7.55%	11.14%	5.89%
Rovi	Pharmaceuticals	5,406	4,526	220,254	243,804	1.86%	2.22%	0.40%
Solaria	Energy	8,484	6,199	168,401	199,877	3.10%	4.24%	1.36%
Telefónica	Telecommunications	2,549,000	2,594,000	2,593,000	11,080,000	23.41%	23.01%	(1.74%)

↑ Source: Prepared by the authors based on the consolidated financial statements. Figures in thousands of euros.

(*) For the calculation of the expense under IFRS 16, only the amounts corresponding to depreciation of right-of-use assets and interest expense have been considered, since variable lease payments, short-term leases, and low-value leases are recognised in the same way under both standards.

IFRS 16 improves operating profit because part of the operating lease expense is reclassified to the finance cost line. For this reason, the impact is more moderate than on EBITDA. Nevertheless, it is significant in corporate groups with greater exposure to this standard.

Panel 2. Non-financial groups on the continuous market that do not belong to the IBEX 35

Entities	Activity	Expenses under IAS 17 (1)	Expenses under IFRS 16 (2)	Operating profit (IFRS 16) (3)	EBITDA under IFRS 16 (4)	IFRS 16 expenses/ EBITDA (5) = (2)/(4)	IAS 17 expenses/ EBITDA (6) = (1)/(4)	Effect of IFRS 16/ Op. Profit (7) = [(1)-(2)]/(3)
A3 Media	Media	1,621	1,482	155,302	173,126	0.86%	0.94%	0.09%
Adolfo Domínguez	Consumer products	12,933	11,899	3,457	17,380	68.46%	74.41%	29.88%
AEDAS Homes	Real estate	1,715	1,730	171,308	172,893	1.00%	0.99%	(0.01%)
Airbus	Transport	258,000		4,300,000	6,542,000	0.57%	3.94%	
AMREST	Leisure	170,900	167,000	103,500	379,200	44.04%	45.07%	3.77%
APERAM	Manufacturing	22,000	24,000	89,000	293,000	8.19%	7.51%	(2.25%)
APPLUS	Professional services	66,518	58,936	110,053	336,116	17.53%	19.79%	6.89%
ATRYs Health	Health	8,459	9,786	(1,844)	30,577	32.00%	27.66%	71.96%
AUDAX	Energy	3,345	2,682	75,127	99,307	2.70%	3.37%	0.88%
CAF	Manufacturing	31,695	28,567	178,814	285,675	10.00%	11.09%	1.75%
Azkoyen	Manufacturing	3,491	3,098	23,051	31,619	9.80%	11.04%	1.70%
Bodegas Riojanas	Food and beverages	745	663	749	2,576	25.74%	28.92%	10.95%
Borges	Food and beverages	1,333	778	(2,466)	1,624	47.91%	82.08%	(22.51%)
CIE Automotive	Manufacturing	28,414	26,594	527,672	713,199	3.73%	3.98%	0.34%
Clínica Baivera	Health	8,979	8,586	50,014	67,021	12.81%	13.40%	0.79%
DIA	Distribution	276,312	225,421	(129,429)	256,851	87.76%	107.58%	(39.32%)
Dominion	Consultancy	24,661	23,717	78,796	147,610	16.07%	16.71%	1.20%
Ebro Foods	Food and beverages	13,267		276,251	379,125		3.50%	
Ecoener	Energy	841	535	18,654	33,274	1.61%	2.53%	1.64%
Edreams	Leisure	2,761	2,826	40,993	78,865	3.58%	3.50%	(0.16%)
Elecnor	Engineering	21,991	20,234	104,626	159,253	12.71%	13.81%	1.68%
Ence	Food and beverages	9,745	7,017	(1,980)	82,704	8.48%	11.78%	(137.78%)
Ercros	Manufacturing	8,536	8,147	13,039	44,306	18.39%	19.27%	2.98%
Ezentis	Engineering	116	194	(13,001)	(11,111)	(1.75%)	(1.04%)	0.60%
FCC	Construction	107,102	89,655	910,251	1,544,612	5.80%	6.93%	1.92%
GAM	Business services	33,954	20,595	23,244	72,043	28.59%	47.13%	57.47%
Gestamp	Manufacturing	60,958	109,008	680,373	1,371,195	7.95%	4.45%	(7.06%)
Grupo San José	Construction	1,110	7,762	38,828	51,199	15.16%	2.17%	(17.13%)
Inmobiliaria del Sur	Real Estate	151	163	22,757	18,605	0.88%	0.81%	(0.05%)
Innovative Ecosystems	Software	265		31,022	32,107		0.82%	
MFE	Media	1,900	19,000	302,300	782,400	2.43%	0.24%	(5.66%)
Minor Hotels	Hotels	358,168	271,773	334,776	626,327	43.39%	57.19%	25.81%
Naturhouse	Manufacturing	1,705	1,650	16,264	18,551	8.89%	9.19%	0.34%
Nextil	Manufacturing	2,554	2,150	(6,780)	(5,117)	-42.03%	-49.91%	(5.95%)
OHLA	Construction	26,188	23,823	90,668	170,830	13.95%	15.33%	2.61%
ORYZON Genomics	Pharmaceuticals		156	(4,531)	(4,235)	-3.69%		
Nueva Pescanova	Food and beverages		2,997	37,431	70,993	4.22%		
PRISA	Media	30,216	26,384	108,810	181,129	14.57%	16.68%	3.52%
Prosegur cash	Business services	54,598	47,358	194,065	335,731	14.11%	16.26%	3.73%
Puig	Retail	67,825	70,924	692,970	863,131	8.22%	7.86%	(0.45%)
Soltec	Energy	1,062	2,715	(12,729)	(1,862)	-145.81%	-57.04%	12.99%
Técnicas Reunidas	Engineering	22,060	21,136	156,598	182,538	11.58%	12.09%	0.59%
Tubos Reunidos	Manufacturing	1,136	903	84,319	106,757	0.85%	1.06%	0.28%
Vidrala	Manufacturing	7,992	6,755	289,838	393,695	1.72%	2.03%	0.43%
Vocento	Media	4,876	4,580	13,114	34,515	13.27%	14.13%	2.26%

↑ Source: Prepared by the authors based on the consolidated financial statements.

//// **TABLE 4** Comparison of lease expense under IAS 17 and IFRS 16, excluding the amounts recognised under both standards in Other operating expenses, and estimate of the lease liability-to-expense multiple

Panel 1. IBEX 35 non-financial groups

Entities	Activity	IFRS 16. Expense in P&L	IAS 17. Expense in P&L	Difference in expense (IFRS16-IAS 17)	% Difference in expense / IFRS 16 expense	Lease liability / IAS 17 expense multiple
Acciona	Constr. Concess. & Energy	212,000	204,000	8,000	3.77%	3.98
Acerinox	Manufacturer	6,654	4,875	1,779	26.74%	3.86
ACS	Constr. & Concess.	215,746	245,432	(29,686)	(13.76%)	2.87
Aena	Concessions	11,569	11,124	445	3.85%	6.48
Amadeus	Technology	43,900	49,600	(5,700)	(12.98%)	3.99
Arcerlor	Manufacturer	290,000	308,000	(18,000)	(6.21%)	3.72
Cellnext	Telecommunications	992,513	978,296	14,217	1.43%	2.88
Enagas	Energy	35,507	45,528	(10,021)	(28.22%)	7.70
Ferrovial	Constr. & Concess.	79,000	101,000	(22,000)	(27.85%)	1.98
Grifols	Pharmaceuticals	123,130	150,439	(27,309)	(22.18%)	7.39
IAG	Airline	1,585,000	2,239,000	(654,000)	(41.26%)	4.00
Iberdrola	Energy	263,000	327,000	(64,000)	(24.33%)	7.93
Inditex	Retail	1,678,000	1,929,000	(251,000)	(14.96%)	2.88
Indra	Engineering	33,482	37,867	(4,385)	(13.10%)	3.27
Logista	Retail	22,852	66,620	(43,768)	(191.53%)	3.64
Mapfre	Insurance	68,600	62,532	6,068	8.85%	4.94
Meliá	Hotel	184,901	229,063	(44,162)	(23.88%)	6.33
Redeia	Energy	12,233	12,748	(515)	(4.21%)	4.78
Repsol	Energy	531,000	784,000	(253,000)	(47.65%)	3.79
Rovi	Pharmaceuticals	4,526	5,406	(880)	(19.44%)	3.48
Solaria	Energy	6,199	8,484	(2,285)	(36.86%)	13.06
Telefónica	Telecommunications	2,594,000	2,549,000	45,000	1.73%	3.51
Average:						4.84

Panel 2. Non-financial groups on the continuous market that do not belong to the IBEX 35

Entities	Activity	IFRS 16. Expense in P&L	IAS 17. Expense in P&L	Difference in expense (IFRS16-IAS 17)	% Difference in expense / IFRS 16 expense	Lease liability / IAS 17 expense multiple
A3 Media	Media	1,482	1,621	(139)	(9.38%)	2.81
Adolfo Domínguez	Consumer products	11,899	12,933	(1,033)	(8.68%)	3.11
AEDAS Homes	Real estate	1,730	1,715	15	0.89%	1.55
AMREST	Leisure	167,000	170,900	(3,900)	(2.34%)	5.19
APERAM	Manufacturing	24,000	22,000	2,000	8.33%	4.55
APPLUS	Professional services	58,936	66,518	(7,582)	(12.86%)	2.90
AUDAX	Energy	2,682	3,345	(663)	(24.72%)	6.27
CAF	Manufacturing	28,567	31,695	(3,128)	(10.95%)	2.79
Azkoyen	Manufacturing	3,098	3,491	(393)	(12.69%)	2.31
Bodegas Riojanas	Food and beverages	663	745	(82)	(12.37%)	1.67
Borges	Food and beverages	778	1,333	(555)	(71.34%)	5.98
CIE Automotive	Manufacturing	26,594	28,414	(1,820)	(6.84%)	2.87
Clínica Baivera	Health	8,586	8,979	(393)	(4.58%)	4.98
DIA	Distribution	225,421	276,312	(50,891)	(22.58%)	1.55
Dominion	Consultancy	23,717	24,661	(944)	(3.98%)	1.36
Ecoener	Energy	535	841	(306)	(57.20%)	11.24
Edreams	Leisure	2,826	2,761	65	2.30%	2.17
Elecnor	Engineering	20,234	21,991	(1,757)	(8.68%)	2.23
Ence	Food and beverages	7,017	9,745	(2,728)	(38.88%)	4.60
Ercros	Manufacturing	8,147	8,536	(389)	(4.77%)	1.08
Ezentis	Engineering	194	116	78	40.21%	4.46
FCC	Construction	89,655	107,102	(17,447)	(19.46%)	4.06
GAM	Business services	20,595	33,954	(13,359)	(64.87%)	3.31
Gestamp	Manufacturing	109,008	60,958	48,050	44.08%	7.35
Inmobiliaria del Sur	Real Estate	163	151	12	7.36%	1.85
Minor Hotels	Hotels	271,773	358,168	(86,395)	(31.79%)	5.47
Naturhouse	Manufacturing	1,650	1,705	(55)	(3.33%)	1.85
Nextil	Manufacturing	2,150	2,554	(403)	(18.76%)	3.75
OHLA	Construction	23,823	26,188	(2,365)	(9.93%)	2.47
PRISA	Media	26,384	30,216	(3,832)	(14.52%)	2.16
Prosegur cash	Business services	47,358	54,598	(7,240)	(15.29%)	2.16
Puig	Retail	70,924	67,825	3,099	4.37%	4.62
Soltec	Energy	2,715	2,370	345	12.71%	9.81
Técnicas Reunidas	Engineering	21,136	22,060	(924)	(4.37%)	2.07
Vidrala	Manufacturing	6,755	7,992	(1,237)	(18.31%)	5.68
Vocento	Media	4,580	4,876	(296)	(6.46%)	3.89
Average:						3.78

↑ Source: Prepared by the authors based on published reports. Figures in thousands of euros.

Table 4 shows the difference between the expense that IFRS 16 now recognises as depreciation of the right-of-use asset plus interest expense, and the expense under IAS 17 (comprising principal repayment and interest). The results show that the principal repayment is greater than the depreciation of the right-of-use asset. This indicates that the leases are in an advanced stage of the contract, where the repayment of the lease liability exceeds the accounting depreciation of the right-of-use asset. This is normal since these are companies that are well established in their businesses and are not using lease arrangements for the first time.

Most groups report a lower expense under IFRS 16 compared to what would apply under IAS 17. Based on the calculation method we have used, it can also be stated that this corresponds to the difference in operating profit (i.e. the difference between the depreciation of the right-of-use asset and the principal repayment of the lease liability). Lastly, the lease liability-to-expense multiple, according to IAS 17, stands at average values of 4.84 (IBEX 35) and 3.78 (rest of the continuous market).

8 Recognition and measurement issues under IFRS 16 identified in the disclosures of corporate groups

The initial assessment of how IFRS 16 is being implemented in Spain is based on two sources of information. The first comes from a survey of preparers conducted at the European level by EFRAG. The second is based on a study carried out on companies applying IFRS in Spain. This sample of companies consists primarily of listed groups, as required by Regulation 1606/2002.

The study of the information disclosed by corporate groups focuses on the following areas:

1. Main matters raised by auditors as key audit matters and by companies as matters involving significant uncertainty.
2. Analysis of specific cases described in the Notes to the financial statements.

8.1. Key audit matters and matters involving significant uncertainty

The review of non-financial companies in the IBEX 35 reveals that only one company (IAG) includes a reference to lease accounting as a key audit matter. This issue relates to both IFRS 16 (paragraph 24d) and IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets").

The key matter concerns **the accounting treatment of the maintenance, restoration and return costs of aircraft held under lease arrangements**. The difficulty lies in selecting the accounting policy for the recognition and subsequent measurement of provisions for maintenance and return of leased aircraft. The analysis is framed around two alternative accounting policies with significant effects.

The auditor explains that this calculation is complex, based on multiple models, and underpinned by assumptions that require estimating the costs that will be incurred, which in turn requires the application of professional judgement. Changes in these assumptions could result in adjustments which, in the auditor's opinion, exceed the materiality threshold.

The auditor's response includes, among other procedures, an assessment of the accounting criteria to determine whether the recognition of maintenance provisions and capitalised maintenance assets complies with the requirements set out in IAS 37 and IFRS 16.

Tables 1 and 2 set out **the matters that groups consider to involve significant uncertainty**, whether due to the exercise of judgement or the use of estimates. The most frequently cited matter is

the estimate of the lease term where extension or termination options exist. Among IBEX 35 groups, it is mentioned in eight of the nine total references; among the groups listed on the continuous market but not part of the IBEX 35, in thirteen of the seventeen total references.

//// **TABLE 1** Significant judgements and estimates highlighted by listed non-financial IBEX 35 groups

Entity	Note under the heading Judgements and estimates
Acciona	Incremental rate used in the valuation of lease contracts and determination of the lease term (Notes 3.2 C) and 6). (p.61)
Cellnext	<i>c) Lease term and useful lives of right-of-use assets (see Note 3.k) Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).</i>
Enagas	Assumptions on the calculation of the term of lease contracts in application of IFRS 16 (Note 2.4.b). (p. 87)
IAG (Judgements)	a) Determining the lease term of contracts with renewal and termination options <i>The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. Such judgement includes consideration of fleet plans which underpin approved business plans and historical experience regarding the extension of leases. After the commencement date, the Group re-assesses the lease term if there is a significant event or change in circumstances that affects the Group's ability to exercise or not to exercise the option to renew or to terminate. Further information is given in note 14.</i>
IAG (Estimates)	e) Engineering and other aircraft costs <i>At 31 December 2023, the Group recognised €2529 million in respect of maintenance, restoration and handback provisions, principally in respect of leased aircraft (2022: €2,400 million). Information on movements on the provision is disclosed in note 27. IFRS 16 does not address the accounting for maintenance, restoration and handback provisions that arise through the usage of the underlying asset and accordingly, the Group has applied judgement in applying an accounting policy with regard to the recognition and subsequent measurement of such provisions for leased aircraft. The Group's accounting policy for provisions that arise through usage or through the passage of time, is to recognise the associated estimated costs in the Income statement as the underlying asset is used or through the passage of time. The approach applied by the Group is consistent with the majority of major airlines that prepare their financial statements under IFRS. Were the Group to apply an alternative accounting policy, the financial impact would be materially different at the reporting date. An alternative accounting policy that the Group could have applied was the components approach, where the Group would capitalise the estimated costs of major maintenance events and depreciating them until the subsequent maintenance event (or to the end of lease term) and providing over the lease term for any expected cash compensation for maintenance obligations at the end of the lease. The Group considers that the current accounting policy for maintenance, restoration and handback activities reflects the obligations under its lease arrangements.</i>
Iberdrola	Determining the term of a lease: <i>In the event that a significant event or a significant change in circumstances occurs that may affect the term, the IBERDROLA Group reviews the valuations made in the determination of the lease term. Renewal or termination options are only included in the determination of the lease term if it is reasonably certain that the contract will be extended or will not be cancelled. In the event that a significant event or a significant change in circumstances occurs that may affect the term, the IBERDROLA Group reviews the valuations made in the determination of the lease term. (p.54)</i>
Inditex	<i>The opinions related to the determination of the lease term, as well as the estimation of the discount rates applied in the measurement of the liability under IFRS 16.</i>
Mapfre	<i>The fair value of assets and liabilities from lease contracts (Note 6.3.).</i>

Naturgy	h) Determining lease terms (Note 2.4.20.) <i>In determining the lease term, Naturgy considers all relevant facts and circumstances that create a significant economic incentive for the lessee to exercise the renewal option or not to exercise the termination option. Renewal or termination options are only included in the determination of the lease term if it is reasonably certain that the contract will be extended or will not be cancelled. If any significant event or significant change in circumstances arises that could affect the determination of the term, Naturgy reviews the valuations made when determining the lease term.</i>
Telefónica	Leases <i>Accounting for rights and obligations as a lessee under a lease contract requires the use of estimations to determine the lease term in contracts that include extension options or early termination options.</i> Determining the lease term involves making estimates over the time horizon of the Group's strategic planning process with respect to relevant factors such as expected technological progress, possible regulatory developments, market and competition trends or changes in the business model. The assumptions regarding these variables involve a significant degree of judgment to the extent that the timing and nature of future changes are difficult to anticipate. Due to the uncertainties inherent to these estimates, changes in the assumptions made in respect of uncertain matters when determining the lease term of a lease contract may have an impact on the amounts of the right of use assets and lease liabilities recognized on the basis of the estimates made by the Group.

↑ Source: Prepared by the authors based on the annual financial statements of IBEX 35 groups

Following this, preparers highlight that the next area of greatest uncertainty is the determination of the discount rate (mentioned in two cases among IBEX 35 groups and five among companies listed on the Continuous Market). A third specific topic is the treatment of provisions for maintenance, restoration, and return costs of leased aircraft, noted by IAG in this section of its financial statements.

//// TABLE 2 Significant judgements and estimates highlighted by listed non-financial IBEX 35 groups

Entity	Note under the heading Judgements and estimates
Adolfo Domínguez	<i>Judgements related to the determination of the lease term, as well as the estimate of the rates applied in measurements under IFRS 16. (p.9)</i>
Alantra Partners	<i>Judgements related to the determination of the lease term, as well as the estimate of the discount rates applied in the measurement of the lease liability under IFRS 16 (see Notes 3-g, 3-i, 7 and 17). (p. 27)</i>
Amper	<i>In applying IFRS 16, the Group determines the lease term based on the contractual period together with any additional period covered by a renewal option that is reasonably certain.</i>
AMREST	<i>Determination of the lease term, whether the Group is reasonably certain to exercise extension or termination options. For a majority of contracts the Group holds options for extension/termination of the lease period, on specified conditions.</i> <i>The Group's practice is to assess the reasonableness of exercising options one year before the decision deadline, because in that time all relevant facts and circumstances to make such a decision can be generally available. The Group considers, for example, latest performance of the restaurant, present brand strategy revised during budgeting process, comparison of lease fees to the market average, length of the non-cancellable period of a lease and significance of leasehold improvements recently undertaken (or expected to be undertaken).</i> <i>The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.</i>
Applus	<i>Estimates: The right-of-use assets and obligations under leases</i>
Azkoyen	<i>Determination of the lease term (the Group as lessee) in contracts with options to extend the lease (Notes 3-c and 6). (p. 46).</i>
Borges	<i>Estimate of the lease term (IFRS 16) (see Note 6.25).</i> <i>In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise a renewal option or not to exercise a termination option. Renewal options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated). Generally, the Group relies on the financial forecasts it periodically prepares to assess the likelihood of exercising or not exercising the renewal options for the most significant contracts.</i>
DIA	<i>The judgements related to determining the lease term, as well as the estimation of the discount rates applied in measuring the liability under IFRS 16 Leases. (p. 20).</i>
Ecoener	<i>Other estimates:</i> <i>As estimate of the lease term and an estimate of the discount rates applied to the measurement of liabilities under IFRS 16. When calculating the lease term, consideration is given to relevant facts and circumstances that create a significant economic incentive for the lessee to renew and not to cancel. Renewal or termination options are only included in the determination of the lease term if it is reasonably certain that the contract will be extended or will not be cancelled. If a significant event or a material change in circumstances takes place that could affect the determination of the term, the Group reviews the measurements made when determining the lease term. (Ecoener, 2023: 28).</i>
Ence	Right-of-use assets <i>In determining the terms of its leases, ENCE considers all of the relevant facts and circumstances that create a significant economic incentive for the lessee to exercise the option to extend the lease or not exercise the option to terminate it (note 3.6). Renewal or termination options are only included in the determination of the lease term if it is reasonably certain that the contract will be extended or will not be cancelled. It also estimates the incremental borrowing cost used to measure its lease agreements.</i>

GAM	(c) Classification of lease agreements and estimation of right-of-use assets and lease liabilities The Group engages in various leasing arrangements as lessor and lessee. For those agreements where the Group acts as lessee, the transactions are always recorded as finance leases, except for the exceptions detailed in Note 2.21. When determining the lease term, the GAM Group considers all relevant facts and circumstances that create a significant economic incentive for the lessee to exercise the renewal option or not to terminate the lease. Renewal or termination options are only included in the determination of the lease term if it is reasonably certain that the contract will be extended or will not be cancelled. In the event of a significant event or a material change in circumstances that could affect the determination of the term length, the GAM Group reviews the valuation made when determining the lease term. For those agreements where the Group acts as lessor, the Management determines whether to classify such leases as operating or finance leases based on the transfer of risks and rewards of ownership of the leased assets between the lessor and the lessee. As explained in Note 2.21, a lease is classified as a finance lease when substantially all the risks and rewards of ownership are transferred from the lessor to the lessee. Conversely, a lease is classified as an operating lease if substantially all the risks and rewards of ownership have not been transferred from the lessor to the lessee. As at 31 December 2023 and 2022, the group has no leases in which it acts as lessor which are classified as finance leases. (GAM, 2023: 55-56).
Grupo San José	8. Judgements and assumptions considered in contracts under the IFRS 16 Leasing standard (see Note 4.5). (Grupo San José, 2023: 17).
Innovative Solutions Eco-system	(d) Lease term The lease term is the non-cancellable period considering the initial term of each contract, unless the Group has a unilateral option to extend or terminate and it is certain that such option will be exercised, in which case the corresponding extension or early termination period is included. (e) Discount rates implicit in lease contracts The discount rates used to determine lease liabilities have been determined based on a calculation of an incremental borrowing rate at the inception date, considering the term and amount of the debt.
Nextil	g) Estimate of discount rates implicit in lease contracts (Notes 4.6 and 18.3) The discount rates used to determine financial lease liabilities are estimated by calculating a specific incremental borrowing rate according to the lease term and debt volume at the inception date. If any of these projects fails to cover the capitalised cost based on the projected profitability estimate, the Group impairs the asset, recognising the expense in the consolidated income statement.
PRISA	Determination of the lease term in contracts with renewal options (see Note 4c).
Prosegur cash	Judgements: Leases: lease classification (Note 36.7). [Accounting policies as lessor]
SOLTEC	Lease term (see Note 2.6.d).

8.2. Analysis of specific issues among the non-financial groups of the IBEX 35

8.2.1. Recognition of lease management as a key element of the business

Following the review of the information disclosed in the consolidated annual financial statements of the non-financial companies of the IBEX 35, one company made a specific reference to the complexity involved in managing the standard (Inditex).

"The Group actively manages a large number of lease contracts (more than 6,000 contracts). The leases recognised in which the Group acts as the lessee relate mainly to the premises where the stores are located. It has also been determined that certain contracts for logistics services are leases based on the terms of said contracts which grant the Group exclusive access to the logistics facilities where these services are provided.

The contracts are very heterogeneous and the clauses agreed depend to a large extent on the market, the concept, the lessor, the specific location, whether they are in shopping centres or are street level stores, etc.; in short, they depend on each location and lessor, although the Group's policy is to always seek maximum flexibility (for example, through the absence of mandatory compliance periods and penalties, the longest possible extension options, variable payments that depend on the performance of the leased asset, etc.). (p. 26)...

There is also considerable diversity in the terms agreed in the lease contracts, although the Group's policy is always to seek maximum flexibility with short or even non-existent mandatory periods and unilateral extension options for the Group that are as long as possible.

The mandatory term agreed in lease contracts averages less than 3 years. After these non-cancellable periods, the Group can terminate the contract simply by means of notice, generally of between 6 months and one year." (Inditex 3.2.o. Accounting policies, pp. 26-27).

8.2.2. Existence of lease contracts

In the Notes to the financial statements of listed groups, some complex cases are explained that required an assessment of whether a given contract meets the definition of a lease under IFRS 16 (based on paragraphs 9 to 11 and B9 to B33).

In these cases, the issue highlighted in the disclosures is the concept of "exclusive use" (IFRS 16, paragraphs B21 to B23). Table 2 shows two examples in this regard.

//// **TABLE 2** Examples of decisions on whether to treat a contract as a lease

Entity	Contract
Endesa. Note 21.1	<i>Tolling agreement with Elecgas, S.A. (company 50% owned by Endesa Generación, S.A.U.). For 25 years, of which 12 years remain. Making available, to Endesa Generación, S.A.U., the entire production capacity of its plant and commitment to transform the gas supplied into electricity in exchange for a financial toll.</i>
Inditex Note 3.2.o. (p. 26)	<i>It has also been determined that certain contracts for logistics services are leases based on the terms of said contracts which grant the Group exclusive access to the logistics facilities where these services are provided.</i>

8.2.3. Low-value or short-term leases

IFRS 16 permits simplified accounting treatment for leases with a term lower than 12 months or that relate to assets of low value when new. The capitalisation of short-term leases has a non-significant effect; the exemption may have encouraged contracts to be structured so that they are renewable each year, which implies a different distribution of risks and rewards between lessor and lessee than would be the case with a longer-term contract.

With regard to low-value leases, the Basis for Conclusions refers, as a general indication, to an amount below US\$5,000. Table 5 shows which financial statements disclose information on this widely adopted exemption. As can be seen, in several groups, the amount recognised in the income statement under this heading exceeds the amount recognised as depreciation of right-of-use assets and finance costs associated with the lease liability for leases recognised as assets and liabilities.

An attempt has also been made to estimate the potential impact of these leases if the exemptions for low-value leases had not existed, and if, in the case of short-term leases, the contracts had been entered into for a longer term. A multiple of eight times has traditionally been used for leases in general. Since leases with terms longer than one year and assets that are not of low value have already been capitalised, we have opted to use a lower multiple, aligned with the useful life of IT and telecommunications equipment, which typically fall into this category.

TABLE 5 Exceptions to the lease model (low-value and short-term)

Entities	Activity	Exceptions			Depreciation of right-of-use asset	Interest on liability	IFRS 16 P&L	% IFRS 16 P&L (1)	% Right-of-use Asset (2)	% Right-of-use asset / Assets (3)	Expense x4 / Liabilities (4)	Expense x4 / Active (5)
		Low-value	Short-term	Total								
Acciona	Constr. Concess. & Energy			198,000	169,000	43,000	212,000	93.40%	24.03%	2.60%	3.19%	2.50%
Acerinox	Manufacturer			18,097	6,146	508	6,654	271.97%	96.00%	0.31%	1.99%	1.19%
ACS	Constr. & Concess.			513,284	186,249	29,497	215,746	237.91%	83.73%	1.68%	6.65%	5.63%
Aena	Concessions			2,044	9,823	1,746	11,569	17.67%	3.50%	0.33%	0.08%	0.05%
Arcerlor	Manufacturer	81,000	93,000	174,000	235,000	55,000	290,000	60.00%	12.95%	1.43%	1.84%	0.74%
Enagas	Energy			2,894	28,051	7,456	35,507	8.15%	0.82%	4.15%	0.21%	0.14%
Ferrovial	Constr. & Concess.			250,000	65,000	14,000	79,000	316.46%	127.55%	0.74%	4.89%	3.80%
Grifols	Pharmaceuticals	14,345	1,117	15,462	78,543	44,587	123,130	12.56%	1.64%	4.41%	0.46%	0.29%
IAG	Airline		24,000	24,000	1,077,000	508,000	1,585,000	1.51%	0.28%	22.65%	0.28%	0.25%
Iberdrola	Energy		21,000	21,000	184,000	79,000	263,000	7.98%	0.84%	1.66%	0.09%	0.06%
Indra	Engineering	17,811	19,234	37,045	27,820	5,662	33,482	110.64%	31.12%	2.52%	4.13%	3.14%
Logista	Retail			12,223	16,587	6,265	22,852	53.49%	5.21%	2.91%	0.65%	0.61%
Mapfre	Insurance			33,400	48,700	19,900	68,600	48.69%	12.36%	0.49%	0.29%	0.24%
Meliá	Hotel	3,253	4,217	7,470	151,516	33,385	184,901	4.04%	0.54%	31.02%	0.77%	0.67%
Repsol	Energy			171,000	360,000	171,000	531,000	32.20%	9.30%	2.98%	2.10%	1.11%
Telefónica	Telecommunications	7,000	118,000	125,000	2,159,000	435,000	2,594,000	4.82%	1.48%	8.10%	0.65%	0.48%

↑ Source: Prepared by the authors based on information published by the IBEX 35 listed corporate groups. Values expressed in thousands of euros.

(1): Percentage of the expense recognised through the application of the exceptions relative to the expense recognised for depreciation of the right-of-use asset and interest on the lease liability (expenses under the IFRS 16 model).

(2): Percentage of the expense recognised through the application of the exceptions relative to the value of the right-of-use asset recognised on the balance sheet.

(3): Relative weight of the right-of-use assets over the entity's total assets.

(4): Estimate of the capitalisation of the exceptions relative to total liabilities. This is measured as the proportion of the expense recognised through the application of the exceptions multiplied by four, relative to the value of total liabilities. The multiple of four corresponds to the proportion represented, in the transition year, by the lease liability recognised and the prior lease payment expense (median).

(5): Estimate of the capitalisation of the exceptions relative to total assets. This is measured as the proportion of the expense recognised under the exceptions, multiplied by four, in relation to the value of total assets.

* Only companies for which all the necessary data were available have been included in the calculation. The "Total" column reflects the amount disclosed in the "Other operating expenses" note of the financial statements relating to leases.

In addition, Table 5 shows the companies with the highest percentages in relation to the expenses recognised under the IFRS 16 model (excluding variable lease payments). These are: Ferrovial (3 times higher), Acerinox (2.7 times), ACS (2.38 times), Indra (1.1 times), and Acciona (0.98 times). In these companies, lease liabilities account for a small percentage of total liabilities. This ranges from 0.4% for Acerinox, 0.69% for Ferrovial, 1.76% for ACS, and 2.2% for Indra.

By contrast, companies in which lease liabilities account for a greater proportion of total liabilities show very low figures as a result of applying this exception (4% for Meliá, 1.51% for IAG, and immaterial in the case of Inditex, according to its disclosures).

The simulation of the impact of capitalising these low-value or short-term lease expenses does not have a significant effect on the figures in the statement of financial position and, naturally, it reduces operating profit, although it also reduces total assets and liabilities.

These results appear consistent with the use of this exemption to reduce the cost of preparing the information, given the limited impact it may have on the leverage ratio. In the income statement, it results in improved profit in the early years, since the expense is recognised immediately on a straight-line basis, in contrast to the declining pattern under IFRS 16 (which distributes the finance cost in line with the outstanding liability); ultimately, this is the difference between financial and economic depreciation.

8.2.4. Variable lease payments

Variable lease payments are significant for Inditex, Meliá and Arcelor (see Table 6). These payments are typically based on a percentage of sales generated from the leased asset or on units produced or transported using the asset (see Table 3).

TABLE 6 Importance of variable lease payments in the payment structure of companies reporting such payments

Entities	Activity	Variable lease payments	IFRS 16 P&L	% Var. lease / IFRS 16 expense	% Lease / Liabilities
Acciona	Constr. Concess. & Energy	39,000	212,000	18.40%	2.77%
Arcelor	Manufacturer	68,000	290,000	23.45%	2.48%
Cellnext	Telecommunications	3,127	992,513	0.32%	7.25%
Endesa	Energy	2,000	139,000	1.44%	2.30%
IAG	Airline	1,000	1,585,000	0.06%	20.76%
Iberdrola	Energy	46,000	263,000	17.49%	2.68%
Inditex	Retail	622,000	1,678,000	37.07%	29.32%
Meliá	Hotel	42,888	184,901	23.20%	33.61%
Repsol	Energy	42,000	531,000	7.91%	7.54%
Telefónica	Telecommunications	30,000	2,594,000	1.16%	8.69%

TABLE 3 Criteria for determining variable lease payments

Entity	Note to the financial statements
Arcelor. Note 7 Leases (p. 321)	<i>Expenses for variable lease payments relate to rental fees that vary based on the actual level of activities or performance of the underlying leased assets such as a percentage of sales of the Company's goods through certain leased commercial warehouses and fixed rental fees per actual unit of output produced or transported by the leased assets.</i>
Inditex. Note 16.3 (p. 38)	<i>Some of the Group's commercial premises leases contain conditions for the payment of variable rent that are linked to the sales generated in such stores, such that the payment for the lease is linked to the development of the store.</i>
Meliá. Notes 3.12 and 17.2	<i>In lease contracts with variable payment for which a minimum lease payment is set for defined periods, this amount is considered in the initial calculation, with the amount of the variable payment exceeding such minimum lease payment being recognised as an expense under heading Leases in the Consolidated Income Statement. (p.246)</i> <i>Under Variable leases item, the portion of the lease payment which depends on indexes or rates based on the performance of the hotels is included. The excess over the maximum amount of shortfall that the lessee agrees to assume in the lease contract is also included, with such shortfall being the difference between the variable lease payment and the guaranteed minimum lease payment. (p. 287)</i>

In lease contracts for certain renewable energy generation facilities, the consideration includes what the standard calls "variable payments" (which are excluded from the on-balance sheet model).

Several energy companies report the existence of such clauses in some contracts. These variable payments are not under the lessee's control (i.e. they are not usage-based payments) but depend on weather variability.

The inclusion of variable payments in the measurement of lease liabilities was a highly debated issue during the drafting of IFRS 16 (IFRS 16. BC168 and 169). Ultimately, two types of arguments were used to justify their exclusion: first, that a variable payment avoidable by the entity should not give rise to a liability (affecting usage-based and performance-based payments, on the grounds that variable rent could provide coverage if the lessee chose to cease operations); second, that while some considered such payments to represent a liability, estimating them would be complex and highly subjective,

and thus they should not be recognised due to measurement uncertainty. Those supporting the first argument questioned whether weather-dependent payments were truly avoidable by the entity and, as a result, argued they should be recognised as a liability. The specific references are shown in Table 4 below.

//// **TABLE 4** Criteria used for variable payments in energy generation facilities

Entity	Note to the financial statements
Acciona. Note 27. Expenses (p. 140)	<i>The Energy division enters into land lease contracts with variable rents subject to MWh produced or the amount invoiced by the technical facility, which allows a logical correlation to be established between the income generated by the energy facility and one of its main operating costs. Estimations of future variable rent flows are conditional on the evolution of technical conditions such as corrective maintenance and downtimes, and meteorological conditions such as hours' sunshine or wind affecting energy production in the countries where the Acciona Group operates.</i> <i>Variable rents in the infrastructure division are associated with machinery rentals charged on the basis of machine hours. These rents are non-recurring. The existence of variable rents makes it possible to align the costs incurred with works completion deadlines and resource consumption, so that there is a natural mechanism that adjusts costs to the level of production in the event of construction delays. The estimated future cash flows from variable rents are conditional upon the evolution of the division's works portfolio and the type of projects awarded to the Group, which in turn determine the kinds of machinery and resources that will be required to undertake the work. Hence, it is not possible to estimate these cash flows reliably.</i>
Endesa. Note 21.1. Right-of-use assets (p.354)	<i>Lease agreements for the land on which certain renewable power generation facilities are located. Expiring between 2024 and 2080: Long-term contracts, which may contain automatic renewal clauses, the consideration for which is fixed by combining an amount based on installed capacity (MW) and, in some cases, production (GWh).</i>
Iberdrola. Note 32. Leases (p. 164)	<i>Furthermore, the IBERDROLA Group is potentially exposed to future cash outflows that are not reflected in the lease liability measurement mainly due to variable lease payment commitments. During 2023 and 2022, the IBERDROLA Group accrued an amount of EUR 46 and 40 million for variable leases recognised under the "External services" heading of the Consolidated income statement. Said amounts correspond mainly to lease rents depending on output and operating income from wind farms located on leased land.</i>

8.2.5. Lease Incentives

The accounting treatment of lease incentives may raise questions in certain cases, as their amount, which should reduce the value of the right-of-use asset, cannot be applied because the structure of the contract (non-capitalisable variable payments) does not allow a right-of-use asset to be recognised.

Inditex reports in its annual financial statements that the entity receives incentives for establishing itself in certain shopping centres. The leading position of Inditex's brands is attractive for entering into contracts with very specific and beneficial conditions. These incentives consist of cash transfers to cover the costs of fitting out the premises (contributions to construction work), as stated in Note 3.2.o. *Leases*. These incentives are accounted for as a reduction of the right-of-use asset. However, when the lessee pays exclusively by means of variable rents, no right-of-use asset exists, and therefore the amount of these incentives is recognised as a liability under heading 23. Other non-current liabilities.

"In the case of leases with fixed rents or guaranteed minimum rents, the contributions to construction work diminish the right-of use asset, whereas in the case of leases with variable rents (for which a right-of-use asset is not previously recognised), these contributions are recognised as a non-current liability under 'Other non-current liabilities Lease incentives' and the portion expected to be taken to income in the following year as a current liability under 'Trade and other payables.' These contributions linked to variable rental lease contracts are credited to income as a reduction in lease expenses under 'Operating expenses' over the lease term."

8.2.6. Provisions for maintenance, restoration and return of value in the airline sector

The treatment of major repairs and the obligation to return leased assets in good working condition is not expressly addressed by IFRS 16. Moreover, as previously noted, this is one of the key audit matters identified by the auditor of the IAG Group. Accordingly, we consider it a relevant issue in the context of the Post-Implementation Review.

The question that arises is whether the component approach proposed in IAS 16 should be followed, or alternatively, whether the matter should be addressed as prescribed by IAS 37 and IFRIC 1 in the case of provisions that arise through use or the passage of time, which require the annual recognition of a provision for the estimated cost.

In the first case, the amount of the major repair to be incurred would be separated from the value of the right-of-use asset and depreciated over the period up to when the repair is carried out; at that point, the amount of the major repair would be recognised as a right-of-use asset.

In the second case, the entity recognises an expense each year for the estimated costs, allocated over the period in which they are expected to be incurred. When these costs are ultimately incurred, the provision is used.

The entity appears to apply a hybrid provisioning approach. For maintenance and overhaul costs arising from use or the passage of time, it recognises a provision over time, which is used as those costs arise. However, for major repair costs (understood to mean heavy maintenance costs), it estimates a provision that forms part of the value of the right-of-use asset, without specifying whether it is added to or separated from it as a component.

//// **TABLE 5** Treatment of provisions for major repairs of leased assets

IAG	
Accounting policies 2.f) Leased aircraft (p. 222)	The Group records a provision for major maintenance and overhaul events, including for airframes and engines, that occur through usage or through the passage of time that is recognised as such activity occurs through to the next maintenance event, with a corresponding expense recorded in the Income statement. Any subsequent changes in estimation are recognised in the Income statement. When the maintenance and/or overhaul event occurs, the associated provision is de-recognised. Restoration and handback obligations that arise on the inception of a lease are recognised as a provision with a corresponding amount recognised as part of the ROU asset. Any subsequent change in estimation relating to such costs are reflected in the ROU asset. All other replacement spares and other costs relating to maintenance of leased fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.
2. Accounting policies. Critical accounting estimates, assumptions and judgements (p. 235)	IFRS 16 does not address the accounting for maintenance, restoration and handback provisions that arise through the usage of the underlying asset and accordingly, the Group has applied judgement in applying an accounting policy with regard to the recognition and subsequent measurement of such provisions for leased aircraft. The Group's accounting policy for provisions that arise through usage or through the passage of time, is to recognise the associated estimated costs in the Income statement as the underlying asset is used or through the passage of time. The approach applied by the Group is consistent with the majority of major airlines that prepare their financial statements under IFRS. Were the Group to apply an alternative accounting policy, the financial impact would be materially different at the reporting date. An alternative accounting policy that the Group could have applied was the components approach, where the Group would capitalise the estimated costs of major maintenance events and depreciating them until the subsequent maintenance event (or to the end of lease term) and providing over the lease term for any expected cash compensation for maintenance obligations at the end of the lease. The Group considers that the current accounting policy for maintenance, restoration and handback activities reflects the obligations under its lease arrangements.

The audit committee on financial reporting matters considered this same issue (p. 171):

Group accounting policy on major repairs of leased aircraft

During the course of 2023, management presented to the Committee a detailed analysis of the Company's accounting policies, in response to the enquiries from the CNMV, with regard to major maintenance events on owned and leased aircraft, including peer benchmarking, industry guidance and analysis of alternative accounting policies. In particular, for leased aircraft, IFRS does not provide specific guidance on how to account for major maintenance events and whether to adopt a provisions approach, whereby provisions for such maintenance events are built up over time through the usage of the asset, or to apply the components approach, whereby each major maintenance event is capitalised and depreciated to the sooner of the next event or the end of the lease. The Committee concurred with the continued application of the existing accounting policy of applying the provisions approach.

In addition, Indra applies a policy aligned with IAS 37 and IFRIC 1 for dismantling costs (Note 4.o Provisions and contingencies, p. 46).

"vi. Decommissioning provision

The Group is party to leases containing decommissioning and rehabilitation commitments (Note 7).

On signing the lease, the Group estimates the present value of future decommissioning, close-out and other obligations associated with the lease, such as site restoration costs. The present value is capitalised as an increase in right-of-use assets and provision is recognised (Note 7)."

8.2.7. Consideration of leases in impairment tests of right-of-use assets

The lease accounting model introduced by IFRS 16 (for lessees) has required the performance of impairment tests on right-of-use assets. The impairment estimate is governed by IAS 36. In the impairment test, the lease liability is treated as a source of financing and is excluded from the test. In Meliá's disclosures, it can be observed that leased assets have a lower ability to be recovered than owned assets, which always have residual values that help support the recovery of the invested amount. This situation that does not occur with leased assets. Right-of-use assets are more sensitive to impairment for two reasons (in cases where the lease does not include a purchase option that is expected to be exercised): first, there is no residual value (except in leases with a purchase option that is likely to be exercised), and there may even be a need to recover investments in refurbishments or repairs to the underlying asset; and second, the useful life of the right-of-use asset is shorter than that of the underlying asset, and therefore the period over which the recoverable amount must be assessed is shorter.

//// TABLE 6 Impairment test of right-of-use assets

Meliá	
Meliá. Note 3.12 (p.246)	Impairment of right-of-use assets <i>In general, right-of-use assets do not generate separate cash inflows, therefore, their impairment assessment must be made as part of a cash-generating unit and, consequently, the Group adjusts the calculation of the recoverable amount of such cash-generating unit as described in this Note. In this respect, the Group excludes from the carrying amount of the cash-generating unit the lease liabilities and also excludes from the calculation of the value in use the payments linked to such liabilities. By contrast, the Group includes in the calculation of the value in use the variable payments since they are not included in the lease liability, as well as the lease renewal payments when the term thereof is shorter than the cash flow projection period of the cash-generating unit.</i> <i>In assessing value in use, the Group projects future cash flows by considering the budget approved by the governing bodies of the Company for 2024, net of tax, and applying growth assumptions that are consistent with the market in which the asset operates and its historical performance for the remaining period, until a period equal to the lease term is completed. The discount rates used in determining the recoverable amount are also adjusted in a way consistent with the underlying cash flows and the corresponding cash-generating unit, affecting such cash flows with the specific risks of the assets which have not been adjusted in estimated future cash flows, mainly business risks and those of the countries in which the assets are located, as well as significant climate risks that may affect them.</i>
Meliá. Note 2.6 (p. 235)	<i>However, cash flow projections have a considerable degree of uncertainty due to the possible effects that some factors, such as the geopolitical context, inflation or environmental risks, inter alia, have on the occupancy rate and the average price per room, which may lead to adjustments in the carrying amounts of the assets of the cash-generating units in the future, in particular, of those under lease, given the significant difference between the fair value and the carrying value of most of the assets under ownership.</i>

8.3. Analysis of other matters in non-financial groups listed on the continuous market

8.3.1. Leases of intangible assets

IFRS 16 (paragraph 4) allows entities, on a voluntary basis, to exclude from the scope of the standard leases of intangible assets, which are governed by IAS 38.

This accounting alternative has been widely used. Among the group of entities analysed, only two cases of leases of intangible assets were identified. One of these cases involves the lease of administrative concessions; however, since the fee is set as a variable amount, its value would be zero. The second case relates to the lease of an intangible asset: the right to use a technology platform.

//// TABLE 7 Leases of Intangible assets

Entities	Note
Ecoener (2023: 87)	<i>The only land leases recorded as right-of-use assets are those for which the consideration is fixed. Land leases for which the consideration is a variable amount are not recognised as right-of-use assets in accordance with IFRS 16. Likewise, in relation to the royalties payable to the owners of the administrative concessions leased by the Group, although they meet the definition of a lease, the right-of-use has not been recorded because it is a variable payment. (Greenergu, 2023: 57).</i>
TALGO (2023:	<i>e) Right-of-use assets</i> <i>As indicated in Note 18, the Group has entered into various finance lease arrangements involving its intangible assets, which have been classified as right-of-use assets following the adoption of IFRS 16 (Note 2.6). The cost of the intangible assets subject to finance lease arrangements, corresponding to the right to use various IT platforms, amounted to €1,541 thousand at the end of 2023 (2022: €1,743 thousand).</i>

8.3.2. Initial measurement

A particularly interesting case concerns the treatment of dismantling costs for a leased asset to restore it to the condition in which it was received by the lessee. These costs would not form part of the right-of-use asset (IFRS 16.24(d)) but of the assets added to the leased premises, which would be recognised as property, plant and equipment. They are effectively a separate asset or component of the improvements made to the leased asset, as their installation is what gives rise to the future requirement to remove them.

"Costs of bringing the location to the condition it had been in before the lease agreement was signed

Depending on particular contracts the Group may be obliged to bring the location to the condition it had been in before the lease agreement was signed. Asset retirement provision costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset (leasehold improvement asset within PPE section).

The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed periodically and adjusted if needed. (AMREST, 2023: 67-68)."

8.3.3. Classification of leases

As is the case for IBEX 35 entities, many groups continue to use the term "finance lease" when referring to leases in which they act as lessee. Such references are often used when classifying lease liabilities.

This may be due to the fact that, in individual financial statements, leases are still classified as either finance or operating.

In some instances, these contracts are described separately from other leases. For example, in the balance sheet of Lingotes, S.A., two separate lines are used for lease liabilities: *Financial liabilities with credit institutions, for finance leases and subsidised financing* and *Non-current lease liabilities (rights-of-use assets)*. When describing the corresponding assets, a distinction is made between right-of-use assets and property, plant and equipment under finance lease arrangements.

8.3.4. Low-value or short-term lease exemptions

Table 7 presents the groups listed on the continuous market that have reported the use of low-value or short-term lease exemptions. It also shows the weight of these exemptions in relation to total annual lease expense, their impact on the value of right-of-use assets, and the significance of such right-of-use assets relative to total assets, as an indication of how important such contracts are in terms of asset control. The evidence gathered indicates that these exemptions are frequently used by groups where recognised lease assets represent only a small portion of total group assets (e.g. A3 Media, Elecnor, Ezentis, Grupo San José, MFE).

TABLE 7 Importance of low-value or short-term leases among companies reporting payments under these exemptions

Entities	Activity	Exceptions			Depreciation	Interest	IFRS 16 P&L	% IFRS 16 P&L (1)	% ROU Asset (2)	% Right-of-use asset / Assets (3)	Expense x4 / Liabilities (4)	Expense x4 / Active (5)
		Low-value	Short-term	Total								
A3 Media	Media	0	8,016	8,016	1,304	178	1,482	540.89%	184.91%	0.30%	4.56%	2.19%
Adolfo Domínguez	Consumer products			3,975	11,110	789	11,899	33.40%	10.72%	32.95%	16.93%	14.12%
AEDAS Homes	Real estate			631	1,582	149	1,730	36.46%	24.76%	0.13%	0.23%	0.13%
AMREST	Leisure	6,000	700	6,700	136,800	30,200	167,000	4.01%	0.81%	35.11%	1.37%	1.14%
APERAM	Manufacturing	1,000	16,000	17,000	17,000	7,000	24,000	70.83%	20.24%	2.55%	2.46%	2.06%
APPLUS	Professional services			33,050	57,942	994	58,936	56.08%	18.38%	7.37%	7.14%	5.42%
ATRYs Health	Health			1,055	7,769	2,017	9,786	10.78%	3.32%	5.05%	1.24%	0.67%
AUDAX	Energy			676	1,849	833	2,682	25.20%	3.30%	1.58%	0.24%	0.21%
CAF	Manufacturing			11,273	24,850	3,717	28,567	39.46%	13.16%	1.70%	1.08%	0.89%
Azkoyen	Manufacturing	154	103	257	2,690	408	3,098	8.30%	3.28%	3.65%	1.04%	0.48%
Borges	Food and beverages	0	629	629	636	142	778	80.85%	8.17%	5.03%	2.69%	1.64%
Clínica Baivera	Health			1,778	8,121	465	8,586	20.71%	4.09%	24.35%	8.23%	3.98%
DIA	Distribution	19	23,843	23,862	171,354	54,067	225,421	10.59%	6.09%	14.91%	3.54%	3.63%
Ebro Foods	Food and beverages	1,277	4,192	5,469		1,703			10.39%	1.36%	1.33%	0.57%
Ecoener	Energy			247	422	113	535	46.17%	2.49%	1.71%	0.22%	0.17%
Elecnor	Engineering			161,544	16,817	3,417	20,234	798.38%	346.03%	1.15%	20.51%	15.85%
Ence	Food and beverages			942	4,653	2,364	7,017	13.42%	1.75%	3.17%	0.35%	0.22%
Ercros	Manufacturing			3,594	7,751	396	8,147	44.11%	39.09%	1.35%	4.49%	2.10%
Ezentis	Engineering			912	171	23	194	470.10%	176.74%	4.25%	21.15%	30.08%
Faes Pharma	Pharmaceuticals			972	2,730				15.03%	0.83%	3.45%	0.50%
FCC	Construction	10,100	46,797	56,897	76,352	13,303	89,655	63.46%	13.64%	2.49%	2.15%	1.36%
GAM	Business services	2,141	0	2,141	16,188	4,407	20,595	10.40%	1.70%	23.47%	1.98%	1.59%
Greenenergy	Energy			860	1,950				2.54%	2.67%	0.37%	0.27%
Grupo San José	Construction	6,282	29,054	35,336	7,616	146	7,762	455.24%	570.85%	0.54%	15.37%	12.44%
Inmobiliaria del Sur	Real Estate			25	146	17	163	15.33%	9.43%	0.05%	0.03%	0.02%
Innovative Ecosystems	Software			9		18			6.21%	4.79%	0.19%	1.19%
Lingotes	Manufacturing			176	358				12.54%	1.42%	1.33%	0.71%
MFE	Media			45,000	17,100	1,900	19,000	236.84%	42.69%	2.10%	8.43%	3.59%
Miquel i Costas	Manufacturing			33	527				2.00%	0.35%	0.12%	0.03%
Naturhouse	Manufacturing			592	1,587	63	1,650	35.88%	22.20%	5.46%	13.00%	4.85%
Pharmamar	Pharmaceuticals			1,646	2,043				44.09%	1.10%	4.48%	1.93%
Prosegur cash	Business services			44,832	40,680	6,678	47,358	94.67%	40.30%	5.59%	9.77%	9.01%
Puig	Retail			16,014	65,826	5,098	70,924	22.58%	5.56%	3.73%	0.95%	0.83%
Tubos Reunidos	Manufacturing			776	638	265	903	85.94%	13.16%	1.11%	0.59%	0.59%

↑ Source: Prepared by the authors based on information published by the IBEX 35 listed corporate groups. Amounts expressed in thousands of euros.

(1): Percentage of the expense recognised through the application of the exceptions relative to the expense recognised for depreciation of the right-of-use asset and interest on the lease liability (expenses under the IFRS 16 model).

(2): Percentage of the expense recognised through the application of the exceptions relative to the value of the right-of-use asset recognised on the balance sheet.

(3): Relative weight of the right-of-use assets over the entity's total assets.

(4): Estimate of the capitalisation of the exceptions relative to total liabilities. This is measured as the proportion of the expense recognised through the application of the exceptions multiplied by four, relative to the value of total liabilities. The multiple of four corresponds to the proportion represented, in the transition year, by the lease liability recognised and the prior lease payment expense (median).

(5): Estimate of the capitalisation of the exceptions relative to total assets. This is measured as the proportion of the expense recognised under the exceptions, multiplied by four, in relation to the value of total assets.

* Only companies for which all the necessary data were available have been included in the calculation. A reconstruction of the capitalisation of low-value and short-term leases has been carried out using a multiple of 4, which may be equivalent to the useful life of low-value equipment (laptops, phones, tablets).

Among the groups in which right-of-use assets represent a significant proportion of total assets, this mechanism can be considered relevant in the case of Adolfo Domínguez. In this group, annual expenses arising from exemptions account for approximately 45% of lease expenses (depreciation of the right-of-use asset and interest) and more than 10% of the value of right-of-use assets.

Elecnor reports annual expenses for short-term or low-value lease exemptions that far exceed the amount capitalised as right-of-use assets. This may be because the group opts to structure its contracts with a high degree of flexibility (short-term) or prefers to reduce complexity in the case of low-value items. The effect is that the impact on profit or loss is much greater than the amounts recognised on the balance sheet. The impact on its assets and liabilities would be 15.85% and 20%, respectively. Another relevant case is that of Ezentis. For this group, capitalising such leases using these assumptions would increase the value of assets by 30% and liabilities by 21% (the group has negative equity).

8.3.5. Lease term

The information on contract terms reveals that, in some cases, the estimated terms are not fulfilled. In such cases, the right-of-use asset and lease liability are derecognised from the balance sheet, and the difference is recognised in profit or loss. Any penalty is also recognised in profit or loss.

It is important to note that the lease term defined in IFRS 16 must consider the non-cancellable period plus any extension, termination, or purchase options that are considered "reasonably certain" to be exercised (IFRS 16 paragraph 18).

In the case of Nextil (2023: 74):

"The derecognitions for the 2023 financial year correspond to the right-of-use assets for the San José Pinula facility (Guatemala), the lease for which has been terminated. This will allow all production activity to be concentrated at the Fraijanes facility, with the aim of increasing production efficiency and reducing operating costs. The agreement reached with the lessor involved payment of a termination penalty equivalent to two months' rent."

In the case of Edreams (2023: 225) a reduction of the lease term is also noted and no mention is made of the need for any penalty payment:

"The decrease of "buildings-lease" as at 31st March 2024 is mainly due to the shortening of the lease term for certain office lease contracts that have now been finalised, consequently the cost of the associated assets has been derecognised for an amount of €4.1 million with the corresponding accumulated depreciation of €2.6 million. The disposals of general installations and furniture are also related to the derecognition of assets associated with the termination of the lease contract for the aforementioned office."

A third case involves a legal dispute in which the reporting entity is seeking termination of a lease contract in which it is the lessee, while the counterparty is claiming payment of the outstanding payments. These brief examples show that whether the lease is considered cancellable can be subject to legal dispute (Minor Hotels, 2023: 68):

"In the context of a legal proceeding in which the Company requested that the termination of a lease contract be declared lawful, the defendant has answered requesting, among other things, the payment of the rents unpaid as a consequence of the aforementioned termination, and the proceeding is currently pending trial."

Since right-of-use assets must be depreciated over the lease term, any derecognition in which the net carrying amount is not nil may indicate one of the following situations:

- Early termination of a lease contract (often involving a penalty, which would be recognised as an expense if not previously provided for).
- Change in estimate regarding the lease term (for example, a reassessment of the exercise of optional extensions). It was expected to be renewed and in the end it was not renewed.

- “Sale” of the lease contract to a third party (who assumes the lease).
- Subleases in which the secondary lease qualifies as a finance lease.

In addition, disclosures regarding lease terms and how the entity manages its extension decisions are relevant. Minor Hotels (2023: 28) contains an interesting reflection on this issue:

"The general determination of not including unilateral extension of contracts as a part of their term, is based on the Group's historical experience. The windows for renewal have historically been used as renegotiation windows, unless the market situation was clearly favourable for the Group. Therefore, given that hotel rental agreements are normally signed with a first term that is higher than a macroeconomic cycle (5 years), our experience shows that it is highly probable that some unknown event may occur on the date the agreement is signed, and which may significantly affect such judgement. The attacks in Europe, in Brussels or in Nice, serve as an example, as does the COVID-19 pandemic itself, as they changed the economic paradigm and affected the frameworks for negotiating rent. Furthermore, to determine the term for lease agreements, the term for recovering the investments made in it are taken into account."

8.3.6. Variable lease payments

The issue of when a payment should be considered an in-substance fixed payment is a source of confusion. The Greenergy Group (2023: 62) includes a rationale on this matter, based on significant volatility in the amounts that would surround the estimated payment obligation. According to AECA (2022), a payment qualifies as an in-substance fixed payment when the probability of it occurring is very high, using expressions such as the event that introduces variability has virtually no real chance of occurring, or that the most probable payment is the only realistically expected payment. This is not a matter of measurement reliability, but rather of the absence of a genuine possibility that the payment will not occur.

"The Group's only lease agreement which includes variable payments during 2023 and 2022 corresponds to the Kosten wind park. A period of two years was considered initially, counting from the commercial operations date (June 2021). From the second year, future payments will be variable depending entirely on the fluctuations in energy produced, and are not included in the capitalization model but are instead recognized in profit or loss since said cash flows cannot be reliably estimated in light of the energy production estimates by independent experts varying by more than 20% annually, concluding that the cash flows from production cannot be estimated reliably and thus the lease for the Kosten wind park from the second year onwards will not fall within the scope of IFRS 16."

A specific case of variable lease payment measurement led to an amendment to IFRS 16 in 2022. In the context of sale and leaseback transactions in which the leaseback includes variable lease payments, the seller-lessee must estimate the expected amount of those variable payments. Minor Hotels (2023: 19) reports the impact of this amendment as follows:

"Amendment to IFRS 16. Lease liabilities in a sale and leaseback transaction"

The application of the amendment to IFRS 16 relating to lease liabilities in a sale and leaseback operation requires the lessee/seller to calculate the lease liability resulting from the sale and leaseback operation as the present value of all lease payments, including an estimate of those that could be considered variable, and this liability determines the proportion of the asset retained.

The application of this amendment will affect all sale and leaseback operations entered into after the implementation of IFRS 16 on 1 January 2019. The estimated impact of this amendment for the Group will result in an increase in rights of use of 31 million euros, in lease liabilities of 84 million euros and in deferred assets of 13 million euros, and a reduction in equity of 40 million euros. (Minor Hotels, 2023: 19)."

8.3.7. Interaction with other standards

The field analysis revealed several issues that highlight areas of difficulty.

a. Impairment test of right-of-use assets

Impairment testing is an issue that has proved controversial. IAS 36.78 states the following: *"It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the price to sell the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount."* This passage highlights that, in cases such as leases, the liability is considered together with the asset being analysed, since disposal of the asset would also require transfer of the lease liability. That said, the paragraph mainly refers to the calculation of fair value less costs of disposal, and only secondarily to recoverable amount and value in use.

The issue arises because, when treating the right-of-use asset as part of the cash-generating unit (CGU), and among the assets whose carrying amount needs to be recovered, the lease liability can be viewed as a financial liability that forms part of the financing structure and does not affect the determination of cash flows. IFRS 16 increases the assets subject to impairment testing, but also increases the operating cash flows, because lease payments are not considered operating cash outflows. Alternatively, if the lease liability is treated as an operating liability, it would reduce the investment in the right-of-use asset, and the repayment of that operating liability (the lease payments) would reduce EBITDA. This treatment corresponds to what would be referred to as a pre-IFRS 16 impairment test.

//// TABLE 8 Impairment test of right-of-use assets

Entities	Note
Azkoyen	The Coges CGU's 2023 impairment test was carried out " pre IFRS 16 ": (i) considering lease costs as a reduction in cash flows and, therefore, (ii) excluding the right of use assets in the consolidated recoverable amount . The recoverable amount is equal to the total carrying amount of the company less its net financial debt. (Azkoyen, 2023: 76) [emphasis added]
Grupo DIA	The Group tests for impairment on non-current operating assets by level. The first level tests the potential impairment of property, plant and equipment and intangible assets subject to depreciation and amortisation at an individual CGU (store) level by aggregating the right-of-use assets from lease contracts as well as the financial liabilities arising from them. In addition, when calculating the cash flows associated with each CGU, the Group has considered the lease liability and has therefore not considered the lease payments as a cash outflow during the right-of-use assets period, but it has considered the tax not paid on the deduction of the lease expense. The second level analyses potential impairment by grouping CGUs at the legal entity level and assigning the corporate assets that serve those CGU groups (mainly corporate head offices, logistics centres and brands), together with the goodwill assigned at the legal entity level. When a CGU is fully impaired due to a negative value in use, the Group revalues the reasonably certain period of its lease contract to a short-term lease and derecognises the existing right-of-use assets and the financial liability associated with the right-of use assets. On the other hand, the provision for onerous contract is made for the costs associated with the termination of the lease contract, as mentioned in section m) provisions. (Grupo DIA, 2023: 87)
Ebro Foods	Although effectiveness of the new lease accounting standard, IFRS 16, from January 1, 2019 did not have a very significant impact on the Ebro Group, it did imply certain changes for impairment testing purposes from 2019. Specifically, it implied the following changes: * The metrics used for cross-checking purposes were revised upwards on account of the recognition of right-of-use assets. * The statement of profit or loss and financial position projections were also adjusted to eliminate lease expense, a concept that has been replaced by right of-use asset depreciation and the finance cost corresponding to the new financial liability. * The numbers factor in new cash outflows corresponding to the renewal of the lease agreements subject to the new standard and their impact during the projection time horizon and on the CGUs' terminal value. * The discount rates used have been adjusted to reflect the new market situation, making sure that the comparable companies used use similar accounting policies. (Ebro Foods, 2023: 87)
Ecoener	When determining the assets linked to each CGU, the Group includes the rights of use arising from lease contracts in the net carrying amount of the property, plant and equipment and intangible assets associated with that CGU. The lease liabilities that are directly linked are not taken into consideration when determining the CGU's carrying amount. In order to ensure consistency, the lease payments linked to this liability are not considered as a cash outflow in the calculation of the cash flows associated with each CGU. (Ecoener, 2023: 87)
Ezentis	The Group has considered the impact of applying IFRS 16 on the net carrying amounts of the assets associated with each CGU and on the forecast future cash flows. It includes the right-of-use assets in the CGU's carrying amount and reflects the standard's impact on operating cash flows by reducing the value in use of the CGU by the amount of the lease liability . These considerations did not materially affect the impairment conclusions at year-end 2023. (Ezentis, 2023: 240).
Grenergy	At the end of the reporting period, the Group analyzes the values of its non-current assets to determine whether there is any indication those assets may have suffered an impairment loss. Should the corresponding impairment test become necessary given the existence of impairment indicators relating to the CGU, the Group's approach will be to compare the carrying amounts of the CGUs, which includes the lease assets, and their recoverable amounts, determined using a discounted cash flow model. The present value of estimated future cash flows excludes lease payments which depend on the determination of the lease liability, which is why the lease liability recognized in the consolidated statement of financial position is not deducted from the right of-use asset for purposes of determining the recoverable amount. (Geenergy, 2023: 87)
Prosegur Cash	Lease liabilities associated with the rights of use have been considered to determine the carrying amount of the CGUs, since they are related to property, fleet of armoured vehicles and light vehicles with which the Group develops each of its activities. Therefore, if there was the possibility of selling a CGU, the buyer would have to acquire the aforementioned liabilities associated with the rights of use. (Prosegur, 2023: 43).

b. Right-of-use assets as inventories

One entity has included in the value of inventories the depreciation of right-of-use assets related to the lease of land that is used to develop a facility that will later be transferred to a customer. Therefore, both the production costs incurred up to the transfer date and the pre-transfer finance costs, given that the construction period exceeds one year, are included in the value of the asset (inventories).

//// TABLE 9 Right-of-use assets classified as inventories

Group	Note
Greenenergy	<i>In addition, the Group classifies the following items as inventories: the depreciation of the right-of-use assets and the accrued expense of the finance lease liabilities related to the rental of land incurred in the initial stages of design, development, and construction of solar power plants that will be subsequently sold by the Group (Note 3.11). Until these plants become operational, the Group capitalizes the depreciation expense of the right-of-use asset as an increase in the carrying amount for the plant, in accordance with IAS 2. (Greenenergy, 2023: 87)</i> <i>In addition, when the Group considers the cost of inventories, it includes those right-of use assets corresponding to the lease agreements for the development and construction of certain plants which are still under construction or in their initial design and development stages and that, based on IFRS 16, will be sold by the Group once started up. (Greenenergy, 2023: 87)</i> <i>As indicated in Note 3.10, based on IFRS 16, the Group includes the following items under "Inventories": the right-of-use assets for certain plants that are still under construction, in their initial design, development and construction phases, and that will be offered for sale by the Group once they are started up (Note 10) (Greenenergy, 2023: 62).</i>

9 Analysis of IFRS 16 disclosure requirements in the information published by corporate groups

IFRS 16 has introduced new disclosure requirements as a result of the change in the accounting model.

9.1. Inventory of complex issues in light of the survey conducted by EFRAG (2024)

The EFRAG (2024) survey of preparers, users, auditors and national standard-setters has highlighted users' satisfaction with the information disclosed under IFRS 16. Users also identified areas for improvement regarding the discount rate, lease term, and the critical assumptions used, the depreciation schedule, and the main drivers of variable payments.

Preparers noted that the disclosure of low-value or short-term leases undermines the benefits intended by this exemption, as it increases the cost of preparing the information. They also pointed to the difficulty of providing disclosures about variable payments.

Finally, neither the auditors nor the national standard-setters made comments in this chapter.

The analysis of the disclosure requirements under IFRS 16 is structured into several sections. These are as follows:

- General presentation of lease-related information
- Disclosure on right-of-use assets
- Disclosure on lease liabilities
- Disclosure on exceptions to the right-of-use model

9.2. Field analysis of non-financial groups in the IBEX 35

9.2.1. General presentation of lease-related information

IFRS 16.52 allows information on right-of-use assets and lease liabilities arising from leases to be presented in the statement of financial position either in a separate line item or within the line item that includes the underlying leased assets (property, plant and equipment) in the case of assets, or within financial liabilities in the case of lease liabilities.

The information provided in the Notes to the financial statements expanding on these assets and liabilities may appear either in a specific section or within the heading that corresponds to the underlying assets or the financial liabilities.

The analysis performed shows that only 6 out of 28 groups (21.42%) present the information within the same headings as the underlying asset and within financial liabilities (Table 8). The remaining 22 groups (78.58%) use a specific heading in the Notes for either the assets or the liabilities. The most common situation is a single section covering both, under headings such as "Leases" or "Right-of-use assets and lease liabilities". The second most common case (9 out of 28, or 32.1%) is where only the right-of-use assets are mentioned, and the lease liability information is included together with other obligations of the entity. Finally, in only two cases there is a separate section for right-of-use assets and another for lease liabilities.

A second issue analysed is the type of general lease information presented in the Notes. IFRS 16.59(a) and IFRS 16.B48 require the entity to disclose the degree of flexibility provided by leases compared to other control mechanisms; the type of assets being leased; a description of the clauses and restrictions to which the lessee may be subject under the contract; sensitivity to key variables; exposure to risk; and deviations from industry practice.

//// **TABLE 8** General disclosure practices. Separate note and general content

Company	Activity	Impact on liabilities	Separate note (1)	Title of the Note	Description (2)
Acciona	Constr. Concess. & Energy	2.77%	d	Leases	e
Acerinox	Manufacturer	0.40%	d	Right-of-use assets (Leases)	f
ACS	Constr. & Concess.	1.76%	a	Within Property, Plant and Equipment	f
Aena	Concessions	0.60%	a	Within Property, Plant and Equipment	e
Amadeus	Technology	2.50%	b	Right-of-use assets	f
Arcelor	Manufacturer	2.48%	d	Leases	e
Cellnext	Telecommunications	7.25%	d	Leases	e
Colonial	Real Estate	0.25%	d	Leases	e
Enagas	Energy	5.87%	a	Property, plant and equipment	f
Endesa	Energy	2.30%	b	Right-of-use assets	e
Ferrovial	Constr. & Concess.	0.69%	d	Right-of-use assets and associated lease liabilities	f
Fluidra	Manufacturer	7.95%	b	Right-of-use assets	e
Grifols	Pharmaceuticals	7.46%	d	Leases	e
IAG	Airline	20.76%	d	Leases	e
Iberdrola	Energy	2.68%	d	Right-of-use assets and leases	a, e
Inditex	Retail	29.32%	d	Leases	a, e
Indra	Engineering	2.76%	b	Right-of-use assets	e
Logista	Retail	2.53%	a		e

Mapfre	Insurance	0.59%	b	Leases	e
Meliá	Hotel	33.61%	d	Leases	e
Naturgy	Energy	4.99%	b	Right-of-use assets	e
Redeia	Energy	0.44%	d	Right-of-use assets and lease liabilities	e
Repsol	Energy	7.54%	a		e
Rovi	Pharmaceuticals	5.33%	a		e
Sacyr	Constr. & Concess.	0.75%	d	Leases	e
Solaria	Energy	9.39%	b	Surface rights	e
Telefónica	Telecommunications	8.69%	d	Rights of Use and Leases	e

↑ (1) Separate note in the Notes to the Financial Statements. a: Does not use a separate note; b: Separate note for right-of-use assets; c: Separate note for lease liabilities; d: Separate note for right-of-use assets and lease liabilities.

(2) Criteria set out in IFRS 16.59.a and B48. a: The lease provides flexibility; b: Description of the clauses and restrictions; c: Sensitivity to key variables and exposure to risks; d: Deviations from industry practice; e: activities in which the lease is used; f: No comments provided.

The vast majority of the Notes describe the type of leased assets (22 out of 28). The most significant volumes of leases relate to real estate, as already indicated by AECA (2022: 193), citing data from the Central Balance Sheet Data Office of the Bank of Spain: *"The most significant right-of-use assets relate to the lease of land and buildings, with the median value of such right-of-use assets accounting for 76.5% of the total."* Only in two cases is it mentioned that this contractual arrangement provides flexibility to the entity in the management of its capital assets (Iberdrola and Inditex). In general terms, it can be stated that the Groups are sparing in the information they disclose regarding lease decisions compared to other alternatives such as purchase; as well as regarding critical variables, the most relevant clauses and restrictions, or departures from industry practice.

9.2.2. Disclosure on right-of-use assets

IFRS 16 requires entities to disclose the carrying amount of right-of-use assets at the reporting date, distinguishing between the various types of leased assets (IFRS 16.47.a and IFRS 16.53.j), in addition to depreciation by type of leased asset (IFRS 16.53.a). Entities must also disclose additions to right-of-use assets (IFRS 16.53.h). Although derecognition of right-of-use assets is not explicitly mentioned, as IFRS 16.54 permits the use of a tabular format, entities commonly include the amount derecognised and transfers to other accounts (required under IFRS 16.54).

//// TABLE 9 Disclosure practices on right-of-use assets

Company	Impact on liabilities	Carrying amount (1)	Additions (2)	Depreciation (3)	Transfer (4)	Derecognition (carrying amount)	Explanation of the derecognition (5)
Acciona	2.77%	a	a, b, d, e	b	a	32	a, b
Acerinox	0.40%	a	b	b	d	108	c
ACS	1.76%	b, c	a, b	b	d	21,444	c
Aena	0.60%	a	a	b	e	0	d
Amadeus	2.50%	a	a, b	b	e	1,400	b
Arcelor	2.48%	c	c	c	f		e
Cellnext	7.25%	a	c	c	f		e
Colonial	0.25%	a	f	c	f		e
Enagas	5.87%	b	b, d, e	b	f	17,319	e
Endesa	2.30%	b	b	b	d	20,000	b
Ferrovial	0.69%	a	a, b	b	d	(3,000)	e
Fluidra	7.95%	a	a, b	b	d	889	e
Grifols	7.46%	a	a, b	b	d	29,007	e
IAG	20.76%	b	b	b	b	1	e
Iberdrola	2.68%	a	b	b	a	15,000	e
Inditex	29.32%	a	a, b	b	e	196,000	b
Indra	2.76%	a	a, b	b	e	8,584	e
Logista	2.53%	b	b	b	e	798	e
Mapfre	0.59%	b	b	b	e	12,100	e
Meliá	33.61%	a	a, b	a	e		
Naturgy	4.99%	a	a, b	b	e	9	e
Redeia	0.44%	b	b	b	e	2,803	e
Repsol	7.54%	b	a, b	b	e	34,000	e
Rovi	5.33%	b	b	b	e	0	
Sacyr	0.75%	a	b	b	e	7,953	e
Solaria	9.39%	a	a, b	b	e		e
Telefónica	8.69%	a	a, b	b	d	133,000	e

↑ (1) Carrying amount of the right-of-use asset (IFRS 16.47a and IFRS 16.53.j). a: The right-of-use asset is presented in the statement of financial position; b: It is disclosed in the additions and derecognitions table; c: A quantified description is given.

(2) Additions to right-of-use assets (IFRS 16.53.h). a: A general comment is made on additions; b: It is disclosed in the additions and derecognitions table; c: The quantification is disclosed in a paragraph; d: Correspond to adjustments, among others, for inflation; e: Among others, they are caused by lease extensions; f: Not disclosed.

(3) Depreciation of right-of-use assets (IFRS 16.53.a). a: Presented in the statement of profit or loss; b: It is disclosed in the additions and derecognitions table; c: The quantification is disclosed in a paragraph.

(4) Transfer of right-of-use assets (IFRS 16.54) in thousands of euros. a: Transfer to Assets Held for Sale; b: Transfer to Property, plant and equipment; c: Transfer to Inventories; d: They exist, but are not described; e: They do not exist; f: Not disclosed.

(5) Explanation of derecognition of right-of-use assets. a: End of lease term; b: Early termination; c: Not explained; d: Does not exist; e: Not disclosed.

Presentation of a specific line item in the statement of financial position is fairly widespread, as shown in Table 9 (17 out of 27, or 63%). In cases where it is not presented in the statement of financial position, 9 out of 10, it is described in the additions and derecognitions table. In one case (Arcelor), a quantified description of the value of these right-of-use assets is provided.

Additions to right-of-use assets are presented in the additions and derecognitions table in 23 out of 27 cases (85%). In two cases, a comment is included quantifying the amounts. In a couple of cases, it is mentioned that the additions correspond to inflation adjustments or lease extensions.

Depreciation for the period is disclosed through the additions and derecognitions table (23 out of 27 cases), while in three cases it is disclosed in a paragraph. In one case, an entity presents the depreciation expense for the period in the statement of profit or loss (Meliá).

In half of the cases where transfers to other line items occur, it is not explained to which line item the assets are transferred. Of the 27 companies analysed, 13 do not include a "Transfers" line in the additions and derecognitions table, meaning that no transfers exist (48%). In only 3 of the 14 cases, the destination of the transfer is identified (one to Property, Plant and Equipment and two to Non-financial Assets Held for Sale). In 4 of the 14 cases, the group does not disclose anything in this regard (28.6% of the groups in which transfers exist).

Finally, a topic that has been analysed is the derecognition of right-of-use assets. Above, we discussed the reasons that may give rise to a reduction in the right-of-use asset other than depreciation over the lease term. Some of these amounts may be significant. In four cases, the explanation given is that they correspond to early termination of leases. No comments were observed on whether the corresponding entry for the derecognition of the right-of-use asset is the lease liability or, alternatively, whether the entire amount is recognised in profit or loss because the entity still has to meet the contractual obligation represented by the lease liability. In a large number of cases (18 out of 27), the entity provides no explanation for the derecognitions shown in the additions and derecognitions table, or such derecognitions do not exist.

9.2.3. Disclosure on lease liabilities

IFRS 16 requires entities to present lease liabilities separately from other liabilities of the entity. However, IFRS 16.46(b) allows that, if not presented separately, the note must disclose in which line items the lease liabilities are included. The analysis, summarised in Tables 10 and 11, shows that in 14 out of 27 cases (51.9%), lease liabilities are presented independently on the balance sheet. In 12 out of 27 cases (44.4%), the information is disclosed either in the note on right-of-use assets or in the note on lease liabilities. There is one case in which no lease liability or related disclosure is found, despite the existence of a right-of-use asset.

Information on maturities is highly heterogeneous. In 14 out of 27 cases (51.9%), the discounted amount is used to show maturities over the following years. In 5 cases (18.5%), the gross amount of payments to be made is shown, without discounting and without disclosing the total discount amount. In another 5 cases (18.5%), maturities are disclosed at gross payment values, and the amount of the discount applicable to those future payments is presented in aggregate.

The interest expense is disclosed with a quantified description in the Notes (22 out of 27 cases). In 3 cases, it is presented in the statement of profit or loss (Meliá and Redeia), and in a third case it is presented both in the statement of profit or loss and with a quantified description in the Notes (Cellnex). In only 2 cases is this information neither presented nor disclosed.

//// TABLE 10 Disclosure practices on lease liabilities: maturities and interest

Company	Impact on liabilities	Liabilities without maturity (1)	Maturities (2)	Interest expense (3)	Average maturities (4)	Discount rates (5)
Acciona	2.77%	a	c	b	c	c
Acerinox	0.40%	b	a	b	c	d
ACS	1.76%	a	a	b	c	d
Aena	0.60%	b	a	b	c	d
Amadeus	2.50%	b	a	b	c	d
Arcelor	2.48%	b	b	b	c	d
Cellnext	7.25%	a	b	a	b	d
Colonial	0.25%	a	e	b	a	d
Enagas	5.87%	e	c	c	c	d
Endesa	2.30%	b	a	b	c	d
Ferrovial	0.69%	a	a	b	c	d
Fluidra	7.95%	a	a	b	c	d
Grifols	7.46%	a	c	b	c	d
IAG	20.76%	b	e	b	c	d
Iberdrola	2.68%	a	c	b	c	d
Inditex	29.32%	a	b	b	c	b
Indra	2.76%	b	c	b	a	d
Logista	2.53%	b	a	b	a	d
Mapfre	0.59%	b	a	b	a	a
Meliá	33.61%	a	a	a	a	a
Naturgy	4.99%	a	a	b	c	a
Redeia	0.44%	b	a	a	c	d
Repsol	7.54%	b	b	b	c	d
Rovi	5.33%	b	a	b	b	d
Sacyr	0.75%	a	e	c	b	d
Solaria	9.39%	a	b	b	c	a
Telefónica	8.69%	a	a	b	c	d

- ↑ (1) Presentation and Classification of Lease Liabilities (IFRS 16. 47b). a: The lease liability is presented in the balance sheet; b: It is disclosed in the note on right-of-use assets or in the note on lease liabilities; c: It is disclosed elsewhere; d: Not disclosed.
- (2) Disclosure of the maturity value of lease liabilities (IFRS 16.58). a: They are disclosed at discounted amount; b: The gross amount is disclosed, without deducting interest; c: The gross amount is disclosed by maturity and, in aggregate, the interest discount is disclosed; d: They are disclosed aggregated with other liabilities; e: Not disclosed.
- (3) Presentation and disclosure of interest expense (IFRS 16.49). a: Presented in the income statement; b: Disclosed through a quantified description; c: Neither disclosed nor presented.
- (4) Disclosure of average maturities. a: Average maturities are disclosed in aggregate; b: Average maturities are disclosed by type of leased asset; c: Average maturities are not disclosed.
- (5) Disclosure of discount rates. a: The average discount rate is disclosed; b: Discount rates are disclosed by geographical area; c: Only those associated with finance leases are disclosed; d: Not disclosed.

In addition, some groups disclose the average maturities and the discount rates applied. Average maturities are presented in 8 out of 27 cases (29.6%), of which in 3 cases they are broken down by type of asset and in 5 cases disclosed in aggregate form. As for the discount rates, 6 groups disclose the discount rates applied; 4 of them do so in aggregate form. In 1 case, they are broken down by geographical area, and in another, this information is only disclosed for finance leases.

IFRS 16 requires the disclosure of variable lease payments, extension options, and residual value guarantees. As shown in Table 11, disclosure of variable payments not referenced to indices tends

to focus on the amount paid during the year (10 out of 27 cases). Only in 1 case is an estimate made of future amounts to be paid under this heading (Arcelor). In 11 cases, no disclosure is made at all (40.7%). In 6 cases, it is stated that variable lease payments are not material (22%).

//// **TABLE 11** Disclosure practices on lease liabilities: clauses and payments

Company	Impact on liabilities	Variable expense (1)	Options and guarantees (2)	Leases not yet commenced (3)	Covenants (4)	Payments (5)
Acciona	2.77%	b, d	d	b	d	a
Acerinox	0.40%	f	e	c	d	b
ACS	1.76%	e	e	c	d	a
Aena	0.60%	f	e	c	d	b
Amadeus	2.50%	f	e	a	d	a
Arcelor	2.48%	a, b, c	a	a	c	a
Cellnext	7.25%	b	e	c	c	a
Colonial	0.25%	f	e	c	c	c
Enagas	5.87%	f	e	c	d	b
Endesa	2.30%	b	e	c	d	c
Ferrovial	0.69%	f	e	c	d	b
Fluidra	7.95%	f	e	c	d	a
Grifols	7.46%	f	e	c	d	a
IAG	20.76%	b	a, c	a	d	a
Iberdrola	2.68%	a, b	e	c	d	a
Inditex	29.32%	a, b	e	b	c	a
Indra	2.76%	e	e	c	c	a
Logista	2.53%	e	e	c	c	a
Mapfre	0.59%	e	e	c	d	c
Meliá	33.61%	a, b	e	c	d	a
Naturgy	4.99%	e	c	c	d	c
Redeia	0.44%	f	e	c	d	b
Repsol	7.54%	b	a	a	d	b
Rovi	5.33%	f	e	c	d	c
Sacyr	0.75%	f	e	c	d	c
Solaria	9.39%	e	d	c	d	a
Telefónica	8.69%	b	e	c	d	a

↑ (1) Disclosure of variable lease payments not referenced to an index, as required by IFRS 16.53(e) and 59(b)(i). a: A general comment is made; b: The amount of payments made for this item is disclosed; c: An estimate of future impact is disclosed; d: The reasons for their use, their relative size, the key variables on which they depend, and how these variables are expected to change are explained; e: There are no significant variable payments; f: Not disclosed.

(2) Disclosures of lease term options and residual value guarantees, as required by IFRS 16.59.b.ii). a: An estimate of future impact is disclosed; b: Guaranteed amounts are disclosed; c: The reasons for using options and residual values, the relative magnitude of these amounts, the predominance of options not considered in the measurement of lease liabilities, the magnitude of exposure to residual value, and the nature of the underlying assets for which such guarantees are provided are disclosed; d: There are no significant residual value guarantees; e: Not mentioned.

(3) Leases not yet commenced, as required by IFRS 16.59.b.iv). a: The quantification of these contracts is disclosed; b: There are no significant contracts in this situation; c: Not mentioned.

(4) Description of covenants as required by IFRS 16.59(c). a: General description; b: Specific description; c: There are none that are significant; d: Not mentioned.

(5) Presentation and disclosure of lease payments during the period. a: They are presented in the statement of cash flows; b: They are disclosed with a quantified description; c: Neither presented nor disclosed.

As for lease term options, only two entities mention the reasons justifying their use, and one case includes an estimate of the future amount to be paid under this item (IAG).

Information on lease contracts signed but not yet commenced, possibly because it is not a frequent or material situation, is scarcely included in the financial statements of non-financial IBEX 35 groups. In 4 out of 27 cases, these are mentioned and quantified. On the other hand, no case was found in which any comment was made regarding covenants linked to lease contracts.

Finally, the majority of groups present, in the statement of cash flows, the amount paid as principal for lease payments (55.6%). In 6 cases (22.2%), this lease payment information is disclosed in a note to the financial statements. In another 6 cases, lease payments are neither presented nor disclosed.

9.2.4. Disclosure on exceptions to the right of use model

IFRS 16 allows entities that enter into lease contracts for a term of less than one year and for low-value assets to be exempt from applying the right-of-use on-balance sheet model.

//// **TABLE 12** Disclosure practices on the low-value or short-term lease exemption

Company	Activity	Impact on liabilities	Low-value leases (1)	Short-term leases (2)
Acciona	Constr. Concess. & Energy	2.77%	b	b
Acerinox	Manufacturer	0.40%	b	b
ACS	Constr. & Concess.	1.76%	b	b
Aena	Concessions	0.60%	d	d
Amadeus	Technology	2.50%	d	d
Arcelor	Manufacturer	2.48%	a	a
Cellnext	Telecommunications	7.25%	a	d
Colonial	Real Estate	0.25%	d	d
Enagas	Energy	5.87%	b	b
Endesa	Energy	2.30%	a	a
Ferrovial	Constr. & Concess.	0.69%	b	b
Fluidra	Manufacturer	7.95%	d	d
Grifols	Pharmaceuticals	7.46%	a	a
IAG	Airline	20.76%	d	a
Iberdrola	Energy	2.68%	d	a
Inditex	Retail	29.32%	a	d
Indra	Engineering	2.76%	a	a
Logista	Retail	2.53%	b	b
Mapfre	Insurance	0.59%	b	b
Meliá	Hotel	33.61%	a	a
Naturgy	Energy	4.99%	d	d
Redeia	Energy	0.44%	d	d
Repsol	Energy	7.54%	b	b
Rovi	Pharmaceuticals	5.33%	d	d
Sacyr	Constr. & Concess.	0.75%	d	d
Solaria	Energy	9.39%	d	d
Telefónica	Telecommunications	8.69%	a	a

↑ (1) Disclosure regarding leases qualifying for the low-value exemption (IFRS 16.53(d)). a: The amount is disclosed; b: The amount is disclosed aggregated with the other exemption for short-term leases; c: Aggregated with other amounts; d: The amount of these leases is not disclosed.

(2) Disclosure regarding leases qualifying for the short-term exemption (IFRS 16.53(c)). a: The amount is disclosed; b: The amount is disclosed aggregated with the other exemption for low-value leases; c: Aggregated with other amounts; d: The amount of these leases is not disclosed.

In such cases, the amounts paid under this concept must be disclosed (Table 12). Disclosure of expenses for low-value and short-term leases is made in 15 out of 27 cases. In 8 cases, the amount

corresponding to low-value leases is presented (29.6%), and in another 8 cases, the amount for short-term leases is presented (29.6%). In 11 cases, no information is disclosed regarding these leases (40.7%).

In the groups where leases are more significant, individual disclosure is provided for each type of exemption.

9.3. Field analysis of non-financial groups on the continuous market that do not belong to the Ibex 35

This section presents a review of the financial statements of groups listed on the continuous market that are not listed on the IBEX 35. All the entities are non-financial. The full set analysed comprises 68 groups, although in some cases the information was insufficient to conduct the analysis.

This analysis shows that some listed groups still use the terminology of finance and operating leases when referring to lessee accounting, which reflects a legacy from the previous accounting standards.

9.3.1. General presentation of lease-related information

Generally, as shown in Table 13, the groups listed on the continuous market and out of the IBEX 35 include a separate note disclosing lease information (59.1%). In most cases, this note covers information on both the assets (right-of-use assets) and lease liabilities (71.8% include both in a single note, compared to 28.2% that disclose information on right-of-use assets in one section and lease liabilities in another).

The general description of the contracts includes information that identifies the assets being leased. In specific cases involving entities with a strong exposure to such contracts, mention is made of the flexibility offered by the contracts (Minor Hotels and AMREST), as well as the sensitivity to key variables (Minor Hotels). 77.3% of the groups analysed describe the type of assets being leased, including all those significantly impacted.

TABLE 13 General disclosure practices. Separate note and general content (Part 1)

Companies	Activity	Impact on liabilities	Separate note (1)	Title of the Note	Description (2)
A3 Media	Media	0.46%	d	Rights-of-use assets and lease liabilities	e
Adolfo Domínguez	Consumer products	31.75%	d	Right-of-use assets	e
AEDAS Homes	Real estate	0.05%	a	Property, plant and equipment	e
Airbus	Transport	1.38%	a	Property, plant and equipment	e
Airtificial Intelligence	Software	1.91%	a	Intangible assets	e
Alantra Partners	Advisory services	22.39%	a	Property, plant and equipment	e
Almirall	Pharmaceuticals	4.13%	d	Right-of-use assets	e
Amper	Technology	3.05%	a	Intangible assets	f
AMREST	Leisure	36.69%	d	Lease liabilities	a, e
APERAM	Manufacturing	3.62%	d	Leases	e
APPLUS	Professional services	10.40%	d	Leases	e
ATRYs Health	Health	9.85%	b	Right-of-use assets	e
AUDAX	Energy	1.87%	a	Intangible assets	f
CAF	Manufacturing	2.12%	a	Property, plant and equipment and right-of-use assets	e
Azkoyen	Manufacturing	8.15%	d	Right-of-use assets and lease liabilities	e
Bodegas Riojanas	Food and beverages	3.47%	a	Intangible assets and right-of-use assets	e
Borges	Food and beverages	8.53%	b	Right-of-use assets	e
CIE Automotive	Manufacturing	2.04%	a	Property, plant and equipment and intangible assets	e
Clínica Baivera	Health	51.82%	d	Leases	e
DIA	Distribution	15.92%	d	Leases	e
Dominion	Consultancy	2.19%	a	Property, plant and equipment	e
Duro Felguera	Engineering	0.21%	a	Property, plant and equipment	f
Ebro Foods	Food and beverages	3.61%	b	Right-of-use assets	e
Ecoener	Energy	2.14%	d	Leases	e
Edreams	Leisure	0.68%	b	Property, plant and equipment	e
Elecnor	Engineering	1.56%	d	Right-of-use assets and lease liabilities	e
Ence	Food and beverages	4.19%	d	Right-of-use assets	e
Ercros	Manufacturing	2.89%	b	Property, plant and equipment	e
Ezentis	Engineering	3.00%	b	Other intangible assets and right-of-use assets	e
Faes Pharma	Pharmaceuticals	5.86%	b	Property, plant and equipment	f
FCC	Construction	4.11%	d	Leases	e
GAM	Business services	25.93%	d	Right-of-use assets and lease liabilities	e
Gestamp	Manufacturing	41.97%	a	Property, plant and equipment	e
Greenenergy	Energy	5.84%	d	Leases	e
Grupo San José	Construction	0.62%	a	Income and expenses	f
Grupo Libertas 7	Real Estate	2.88%	a	Intangible assets	f
Inmobiliaria del Sur	Real Estate	0.08%	d	Right-of-use assets and lease liabilities	e

↑ (1) Separate note in the Notes to the Financial Statements. a: Does not use a separate note; b: Separate note for right-of-use assets; c: Separate note for lease liabilities; d: Separate note for right-of-use assets and lease liabilities.

(2) Criteria set out in IFRS 16.59.a and B48. a: The lease provides flexibility; b: Description of the clauses and restrictions; c: Sensitivity to key variables and exposure to risks; d: Deviations from industry practice; e: activities in which the lease is used; f: No comments provided.

//// TABLE 13 General disclosure practices. Separate note and general content (Part 1)

Companies	Activity	Impact on liabilities	Separate note (1)	Title of the Note	Description (2)
Innovative Ecosystems	Software	0.81%	d	Leases	e
Laboratorios Reig Jofre	Pharmaceuticals	11.68%	a	Property, plant and equipment	e
Lingotes	Manufacturing	2.65%	a	Property, plant and equipment	f
MFE	Media	5.25%	a	Non current assets	e
Minor Hotels	Hotels	61.35%	d	Leases	a, c, e
Miquel i Costas	Manufacturing	1.02%	a	Property, plant and equipment	e
Montebalito	Real Estate	1.15%	d	Right-of-use assets // Leases and other similar transactions	f
Naturhouse	Manufacturing	17.29%	d	Leases	e
Neinor Homes	Real Estate	0.64%	b	Right-of-use assets	f
Nextil	Manufacturing	12.09%	d	Leases	e
Nicolás Correa	Manufacturing	1.27%	d	Right-of-use assets//Lease liabilities	e
NYSESA	Real Estate	3.94%	b	Operating leases	f
OHLA	Construction	2.34%	a	Property, plant and equipment	e
Nueva Pescanova	Food and beverages	0.71%	a	Measurement standards	f
Pharmamar	Pharmaceuticals	2.59%	b	Right-of-use assets	f
PRIM	Real Estate	9.11%	a	Property, plant and equipment	e
PRISA	Media	4.65%	a	Property, plant and equipment	e
Prosegur cash	Business services	6.44%	d	Right-of-use assets and lease liabilities	e
Puig	Retail	4.65%	d	Leases	e
Soltec	Energy	3.94%	d	Leases	e
Squirrel Media	Media	2.76%	a	Right-of-use assets	e
Talgo	Transport	0.38%	a	Intangible assets	f
Técnicas Reunidas	Engineering	1.09%	b	Right-of-use assets relating to leased assets	e
Tubacex	Manufacturing	3.04%	a	Property, plant and equipment	e
Tubos Reunidos	Manufacturing	1.20%	d	Right-of-use assets	e
Urbas	Engineering	1.23%	a	Financial debt	f
Vidrala	Manufacturing	3.61%	a	Intangible assets	e
Viscofán	Manufacturing	2.57%	d	Right-of-use assets	e
Vocento	Media	11.13%	d	Right-of-use assets relating to leased assets and lease liabilities	e

↑ (1) Separate note in the Notes to the Financial Statements. a: Does not use a separate note; b: Separate note for right-of-use assets; c: Separate note for lease liabilities; d: Separate note for right-of-use assets and lease liabilities.

(2) Criteria set out in IFRS 16.59.a and B48. a: The lease provides flexibility; b: Description of the clauses and restrictions; c: Sensitivity to key variables and exposure to risks; d: Deviations from industry practice; e: activities in which the lease is used; f: No comments provided.

9.3.2. Disclosure on right-of-use assets

48.5% of listed groups disclose the carrying amount of right-of-use assets in the statement of financial position, compared to 45.5% that report this carrying amount in the additions and disposals table in the Notes. In a few isolated cases, this value is disclosed through a sentence in the Notes (Table 14).

However, depreciation is typically disclosed in the Notes, usually as part of the aforementioned additions and disposals table. Additions are not disclosed in the Notes in 10.6% of cases.

//// TABLE 14 Disclosure practices relating to right-of-use assets (Part 1)

Company	Impact on liabilities	Carrying amount (1)	Additions (2)	Depreciation (3)	Transfer (4)	Derecognition (carrying amount)	Explanation of the derecognition (5)
A3 Media	0.46%	a	a, d	b	e	0	
Adolfo Domínguez	31.75%	a	a, b	b, c	e	363	c
AEDAS Homes	0.05%	b	a	b			
Airbus	1.38%	b	b	b		30,000	e
Airtificial Intelligence	1.91%	b	b	b	e	2,221	a, b
Alantra Partners	22.39%	b	b	b	e	6,964	b
Almirall	4.13%	a	a, b	b	e	0	e
Amper	3.05%	b	b	b	e		
AMREST	36.69%	a	a, b	b	e	2,000	e
APERAM	3.62%	b	b	b	e	0	d
APPLUS	10.40%	a	f	b	e		d
ATRYs Health	9.85%	a	a, b	b	a, b		d
AUDAX	1.87%	b	b	b	e		d
CAF	2.12%	b	b	b	e		d
Azkoyen	8.15%	b	b	b	e		d
Bodegas Riojanas	3.47%	a	b	b	e	0	d
Borges	8.53%	a	b	b	e	38	d
CIE Automotive	2.04%	b	b	b	e	533	d
Clínica Baivera	51.82%	b	b	b	e	1,630	d
DIA	15.92%	a	a	a, b	a	49,660	d
Dominion	2.19%	b	b	b	e	5,997	d
Duro Felguera	0.21%	c	f		e		e
Ebro Foods	3.61%	a	b	b	g	443	d
Ecoener	2.14%	a	b	b	e	0	d
Edreams	0.68%	b	b, e	c	e	1,438	b
Elecnor	1.56%	a	b	b	a	411	d
Ence	4.19%	b	b	b	e	636	d
Ercros	2.89%	a	f		e		d
Ezentis	3.00%	a	b	b	d	0	d
Faes Pharma	5.86%	b	c	c	e		d
FCC	4.11%	b	b	b	e		d
GAM	25.93%	b	b	b	b	2,288	d
Gestamp	41.97%	b	b	b	e	4,831	d
Greenenergy	5.84%	a	b	b	e		d
Grupo San José	0.62%	b	b	b	c	4,675	d
Grupo Libertas 7	2.88%	c	f		e		d
Inmobiliaria del Sur	0.08%	a	b	b	e		d

↑ (1) Carrying amount of the right-of-use asset (IFRS 16.47(a) and IFRS 16.53(j)). a: The right-of-use asset is presented in the statement of financial position; b: It is disclosed in the additions and derecognitions table; c: A quantified description is given.

(2) Additions to right-of-use assets (IFRS 16.53.h). a: A general comment is made on additions; b: It is disclosed in the additions and derecognitions table; c: The quantification is disclosed in a paragraph; d: Correspond to adjustments, among others, for inflation; e: Among others, they are caused by lease extensions; f: Not disclosed.

(3) Depreciation of right-of-use assets (IFRS 16.53.a). a: Presented in the statement of profit or loss; b: It is disclosed in the additions and derecognitions table; c: The quantification is disclosed in a paragraph.

(4) Transfer of right-of-use assets (IFRS 16.54) in thousands of euros. a: Transfer to Assets Held for Sale; b: Transfer to Property, plant and equipment; c: Transfer to Inventories; d: They exist, but are not described; e: They do not exist; f: Not disclosed.

(5) Explanation of derecognition of right-of-use assets. a: End of lease term; b: Early termination; c: Not explained; d: Does not exist; e: Not disclosed.

Derecognitions of leased items with a carrying amount are common. In 6 cases, representing 9.1%, these derecognitions are due to early termination of contracts.

//// **TABLE 14** Disclosure practices relating to right-of-use assets (Part 2)

Company	Impact on liabilities	Carrying amount (1)	Additions (2)	Depreciation (3)	Transfer (4)	Derecognition (carrying amount)	Explanation of the derecognition (5)
Innovative Ecosystems	0.81%	a	b	b	e	734	b
Laboratorios Reig Jofre	11.68%	b	b	b	e	5,167	d
Lingotes	2.65%	b	c	c	e		d
MFE	5.25%	b	b	b	e		d
Minor Hotels	61.35%	a	b	a	e	0	d
Miquel i Costas	1.02%	b	b	b	e	251	d
Montebalito	1.15%	b	b	b	e	0	d
Naturhouse	17.29%	b	b	b	e	2,862	d
Neinor Homes	0.64%	a	b	b	e		d
Nextil	12.09%	b	b	b	e		b
Nicolás Correa	1.27%	a	b	b	e	5	b
NYSESA	3.94%	c	f		e		d
OHLA	2.34%	b	b	b	e	6,251	d
Nueva Pescanova	0.71%	a	f	b	e		d
Pharmamar	2.59%	a	b	b	e	651	d
PRIM	9.11%	a	b	b	e	162	d
PRISA	4.65%	b	b	b	e	1,378	a
Prosegur cash	6.44%	a	b	b	b	4,959	d
Puig	4.65%	a	b	b	e	9,334	d
Soltec	3.94%	a	b	b	e	511	d
Squirrel Media	2.76%	a	b	b	e	1,653	a
Talgo	0.38%	b	b	b	e	0	a
Técnicas Reunidas	1.09%	a	b	b	e	0	a
Tubacex	3.04%	b	b	b	e	0	a
Tubos Reunidos	1.20%	a	b	b	e	0	a
Urbas	1.23%	c	f		f		d
Vidrala	3.61%	a	b	b	f		d
Viscofán	2.57%	a	b	a	g	201	d
Vocento	11.13%	a	b	b	e		d

- ↑ (1) Carrying amount of the right-of-use asset (IFRS 16.47(a) and IFRS 16.53(j)). a: The right-of-use asset is presented in the statement of financial position; b: It is disclosed in the additions and derecognitions table; c: A quantified description is given.
- (2) Additions to right-of-use assets (IFRS 16.53.h). a: A general comment is made on additions; b: It is disclosed in the additions and derecognitions table; c: The quantification is disclosed in a paragraph; d: Correspond to adjustments, among others, for inflation; e: Among others, they are caused by lease extensions; f: Not disclosed.
- (3) Depreciation of right-of-use assets (IFRS 16.53.a). a: Presented in the statement of profit or loss; b: It is disclosed in the additions and derecognitions table; c: The quantification is disclosed in a paragraph.
- (4) Transfer of right-of-use assets (IFRS 16.54) in thousands of euros. a: Transfer to Assets Held for Sale; b: Transfer to Property, plant and equipment; c: Transfer to Inventories; d: They exist, but are not described; e: They do not exist; f: Not disclosed; g: Transferred between right-of-use asset items.
- (5) Explanation of derecognition of right-of-use assets. a: End of lease term; b: Early termination; c: Not explained; d: Does not exist; e: Not disclosed.

9.3.3. Disclosure on lease liabilities

Table 15 shows that the presentation of information on lease liabilities in the statement of financial position is high (40.9% of cases) and, when this is not the case, the information is disclosed in the Notes, which occurs in 57.6% of cases. IFRS 7 requires the disclosure of information on future payments. This is presented at discounted value in 35 cases (53%), while in 17 cases (25.8%) the payments are shown at nominal (undiscounted) value. In 3 cases, information on the discount is presented in aggregate form.

//// **TABLE 15** Disclosure practices on lease liabilities: maturities and interest (Part 1)

Company	Impact on liabilities	Liabilities without maturity (1)	Maturities (2)	Interest expense (3)	Average maturities (4)	Discount rates (5)
A3 Media	0.46%	a	a	b	c	d
Adolfo Domínguez	31.75%	a	a	b	c	d
AEDAS Homes	0.05%	b	a	b	c	d
Airbus	1.38%	b	b	c	a	d
Airtificial Intelligence	1.91%	b	a	c	c	a
Alantra Partners	22.39%	b	a	c	a	a
Almirall	4.13%	a	a	c	a	d
Amper	3.05%	b	e	c	c	d
AMREST	36.69%	a	c	b	b	d
APERAM	3.62%	b	a	b	c	d
APPLUS	10.40%	a	b	b	c	d
ATRYs Health	9.85%	a	b	b	a	d
AUDAX	1.87%	a	a	c	c	a
CAF	2.12%	e	e	b	a	d
Azkoyen	8.15%	b	b	b	b	b
Bodegas Riojanas	3.47%	b	a	b	c	a
Borges	8.53%	a	a	b	c	d
CIE Automotive	2.04%	b	d	b	b	b
Clínica Baivera	51.82%	b	b	b	b	a
DIA	15.92%	a	a	a, b	b	b
Dominion	2.19%	b	d	b	c	d
Duro Felguera	0.21%	b	d	c	c	d
Ebro Foods	3.61%	b	a	b	c	d
Ecoener	2.14%	a	a	a	c	b
Edreams	0.68%	b	c	b	c	d
Elecnor	1.56%	a	a	b	c	a
Ence	4.19%	b	b	b	c	b
Ercros	2.89%	a	a	c	c	d
Ezentis	3.00%	a	b	b	c	b
Faes Pharma	5.86%	a	b	c	c	d
FCC	4.11%	b	a	b	c	d
GAM	25.93%	b	a	b	b	b
Gestamp	41.97%	b	a	b	c	d
Greenenergy	5.84%	a	a	c	b	d
Grupo San José	0.62%	b	b	b	c	a
Grupo Libertas 7	2.88%	b	d	c	c	a
Inmobiliaria del Sur	0.08%	a	b	b	a	a

- ↑ (1) Presentation and Classification of Lease Liabilities (IFRS 16. 47b). a: The lease liability is presented in the balance sheet; b: It is disclosed in the note on right-of-use assets or in the note on lease liabilities; c: It is disclosed in the note on risk and capital management; d: Not disclosed.
- (2) Disclosure of the maturity value of lease liabilities (IFRS 16.58). a: They are disclosed at discounted amount; b: The gross amount is disclosed, without deducting interest; c: The gross amount is disclosed by maturity and, in aggregate, the interest discount is disclosed; d: They are disclosed aggregated with other liabilities; e: Not disclosed.
- (3) Presentation and disclosure of interest expense (IFRS 16.49). a: Presented in the income statement; b: Disclosed through a quantified description; c: Neither disclosed nor presented.
- (4) Disclosure of average maturities. a: Average maturities are disclosed in aggregate; b: Average maturities are disclosed by type of leased asset; c: Average maturities are not disclosed.
- (5) Disclosure of discount rates. a: The average discount rate is disclosed; b: Discount rates are disclosed by geographical area; c: Only those associated with finance leases are disclosed; d: Not disclosed.

//// TABLE 15 Disclosure practices on lease liabilities: maturities and interest (Part 2)

Company	Impact on liabilities	Liabilities without maturity (1)	Maturities (2)	Interest expense (3)	Average maturities (4)	Discount rates (5)
Innovative Ecosystems	0.81%	b	a	b	c	b
Laboratorios Reig Jofre	11.68%	a	b	c	c	d
Lingotes	2.65%	a	a	c	c	d
MFE	5.25%	b	e	c	c	d
Minor Hotels	61.35%	a	b	a	c	d
Miquel i Costas	1.02%	b	e	c	c	d
Montebalito	1.15%	a	b	c	c	d
Naturhouse	17.29%	b	a	b	b	b
Neinor Homes	0.64%	b	e	c	c	d
Nextil	12.09%	a	a	b	c	d
Nicolás Correa	1.27%	a	c	c	c	d
NYSEA	3.94%	b	a	c	c	d
OHLA	2.34%	b	a	b	c	a
Nueva Pescanova	0.71%	c	e	b	c	d
Pharmamar	2.59%	a	e	b	c	d
PRIM	9.11%	b	a, b	c	c	d
PRISA	4.65%	b	a	b	c	d
Prosegur cash	6.44%	a	a	b	a	b
Puig	4.65%	b	a	b	b	d
Soltec	3.94%	b	b	b	b	b
Squirrel Media	2.76%	b		c	a	d
Talgo	0.38%	b	a		c	d
Técnicas Reunidas	1.09%	a	a	b	c	d
Tubacex	3.04%	b	e	c	b	d
Tubos Reunidos	1.20%	b		b	c	d
Urbas	1.23%	b	d	c	c	d
Vidrala	3.61%	b	d	b	c	d
Viscofán	2.57%	a	a	c	c	d
Vocento	11.13%	a	a	b	b	d

- ↑ (1) Presentation and Classification of Lease Liabilities (IFRS 16. 47b). a: The lease liability is presented in the balance sheet; b: It is disclosed in the note on right-of-use assets or in the note on lease liabilities; c: It is disclosed in the note on risk and capital management; d: Not disclosed.
- (2) Disclosure of the value of lease liabilities (IFRS 16.58). a: They are disclosed at discounted amount; b: The gross amount is disclosed, without deducting interest; c: The gross amount is disclosed by maturity and, in aggregate, the interest discount is disclosed; d: They are disclosed aggregated with other liabilities; e: Not disclosed.
- (3) Presentation and disclosure of interest expense (IFRS 16.49). a: Presented in the income statement; b: Disclosed through a quantified description; c: Neither disclosed nor presented.
- (4) Disclosure of average maturities. a: Average maturities are disclosed in aggregate; b: Average maturities are disclosed by type of leased asset; c: Average maturities are not disclosed.
- (5) Disclosure of discount rates. a: The average discount rate is disclosed; b: Discount rates are disclosed by geographical area; c: Only those associated with finance leases are disclosed; d: Not disclosed.

Information on interest accrued under lease contracts is usually disclosed in the Notes, either in a paragraph or in a table detailing the effects of leases on the statement of profit or loss. In 36.4% of cases, no information on the period's interest has been found.

Two aspects not required by the standard, but for which disclosure is common, are lease terms and discount rates. In 30.3% of cases, information is provided on average lease terms, sometimes broken

down by type of leased asset. As for discount rates, 31.9% of companies disclose the average discount rate. In some cases (16.7% of the total), the rate is disaggregated by geographical region, due to different economic contexts, or by lease term. One example of disclosure of discount rates by term and geography is provided by Prosegur Cash (2023: 87)

"The average incremental discount rates for the main countries affected by this standard, used for calculating the current value of the rights of use and lease liabilities were as follows:

	Between 1 y 3 years	Between 3 y 5 years	Between 5 y 10 years
Germany	4,20%	3,88%	3,75%
Brazil	13,50%	12,32%	12,39%
Peru	7,33%	7,39%	7,66%
Argentina	99,68%	82,18%	55,93%
Colombia	11,10%	11,41%	11,76%
Chile	8,65%	7,83%	7,11%
Spain	6,00%	5,80%	4,89%

Table 16 explores the terms and conditions of contracts. Generally, variable payments are not very common: 60.6% of cases do not mention them, and 27.3% state that they either do not exist or are not significant. In some cases, a general comment is made; in others, the amount paid is disclosed. In two cases (Inmobiliaria del Sur and Minor Hotels), an estimate of future payments is provided.

Information on lease term options is scarce. One relevant practice is that of Edreams, which explains how it manages lease term options.

"The lease agreements for the Group's offices include extension and termination options, which provide flexibility to the Group. The Group has termination options with notice periods between 3 to 6 months.

The Group has included in the measurement of the lease liability the future cash flows for the periods it estimates that it will keep the contracts. However, for some of the lease contracts, the Group has extension options for additional periods, which can be freely exercised by the Group only, at any time. These extension options have not been considered in the value of the lease liability since the Group does not have reasonable certainty to exercise these options. Future cash flows of these options have been estimated at €2.3 million (undiscounted).

The decrease in total lease liabilities as at 31st March 2024 is mainly due to the shortening of the lease term for certain office lease contracts that have now been finalised amounting to €1.4 million, the payments made during the year of €2.8 million, offset by the modifications considered for certain office lease contracts amounting to €0.5 million, the lease of new hardware amounting to €1.2 million and the accrual of interest of €0.3 million" (Edreams, 2023: 240).

In the cases of DIA and AMREST, the companies explain the reasons for using such clauses. Residual value guarantees are barely mentioned (84.8%), and when they are, it is usually to state that they do not exist (9.1%).

Information on lease covenants is rare (90% of cases do not mention anything), probably because they do not exist. In one case, they are disclosed and quantified (Minor Hotels).

Finally, in 27.3% of cases, lease payments are reported in the statement of cash flows, although it is more common for them to be disclosed in the Notes (36.4%).

//// TABLE 16 Disclosure practices on lease liabilities: clauses and payments (Part 1)

Company	Impact on liabilities	Variable expense (1)	Options and guarantees (2)	Leases not yet commenced (3)	Covenants (4)	Payments (5)
A3 Media	0.46%	f	e	c	d	a, b
Adolfo Domínguez	31.75%	a, b	e	c	d	a
AEDAS Homes	0.05%	f	e	c	d	b
Airbus	1.38%	e	e	c	d	c
Airtificial Intelligence	1.91%	f	e	c	d	c
Alantra Partners	22.39%	f	e	c	d	b
Almirall	4.13%	e	e	c	c	a
Amper	3.05%	f	e	c	d	c
AMREST	36.69%	a, b	c	c	d	a
APERAM	3.62%	f	e	c	d	b
APPLUS	10.40%	f	e	c	d	a
ATRYs Health	9.85%	f	e	c	d	c
AUDAX	1.87%	f	e	c	d	c
CAF	2.12%	f	e	c	d	c
Azkoyen	8.15%	e	e	c	d	a
Bodegas Riojanas	3.47%	e	d	c	d	b
Borges	8.53%	b	e	c	c	b
CIE Automotive	2.04%	f	e	c	d	b
Clínica Baivera	51.82%	f	e	c	d	a
DIA	15.92%	e	c	c	d	a
Dominion	2.19%	f	e	c	d	a
Duro Felguera	0.21%	f	e	c	d	c
Ebro Foods	3.61%	e	e	c	d	b
Ecoener	2.14%	b	e	c	d	a
Edreams	0.68%	e	a	c	d	b
Elecnor	1.56%	f	e	c	d	a
Ence	4.19%	a	e	c	d	b
Ercros	2.89%	f	e	c	d	a
Ezentis	3.00%	f	e	c	d	b
Faes Pharma	5.86%	f	c	c	d	c
FCC	4.11%	e	d	c	d	b
GAM	25.93%	e	e	c	d	b
Gestamp	41.97%	f	e	c	d	c
Greenenergy	5.84%	a	e	b	d	a
Grupo San José	0.62%	e	d	c	d	c
Grupo Libertas 7	2.88%	f	e	c	d	c
Inmobiliaria del Sur	0.08%	c	e	c	d	b

↑ (1) Disclosure of variable lease payments not referenced to an index, as required by IFRS 16.53(e) and 59(b)(i). a: A general comment is made; b: The amount of payments made for this item is disclosed; c: An estimate of future impact is disclosed; d: The reasons for their use, their relative size, the key variables on which they depend, and how these variables are expected to change are explained; e: There are no significant variable payments; f: Not disclosed.

(2) Disclosures of lease term options and residual value guarantees, as required by IFRS 16.59.b.ii). a: An estimate of future impact is disclosed; b: Guaranteed amounts are disclosed; c: The reasons for using options and residual values, the relative magnitude of these amounts, the predominance of options not considered in the measurement of lease liabilities, the magnitude of exposure to residual value, and the nature of the underlying assets for which such guarantees are provided are disclosed; d: There are no significant residual value guarantees; e: Not mentioned.

(3) Leases not yet commenced, as required by IFRS 16.59.b.iv). a: The quantification of these contracts is disclosed; b: There are no significant contracts in this situation; c: Not mentioned.

(4) Description of covenants as required by IFRS 16.59(c). a: General description; b: Specific description; c: There are none that are significant; d: Not mentioned.

(5) Presentation and disclosure of lease payments during the period. a: They are presented in the statement of cash flows; b: They are disclosed with a quantified description; c: Neither presented nor disclosed.

//// TABLE 16 Disclosure practices on lease liabilities: clauses and payments (Part 2)

Company	Impact on liabilities	Variable expense (1)	Options and guarantees (2)	Leases not yet commenced (3)	Covenants (4)	Payments (5)
Innovative Ecosystems	0.81%	f	d	b	c	b
Laboratorios Reig Jofre	11.68%	f	e	c	d	c
Lingotes	2.65%	e	e	c	d	c
MFE	5.25%	f	e	c	d	c
Minor Hotels	61.35%	c	d	a	c	a
Miquel i Costas	1.02%	f	e	c	d	c
Montebalito	1.15%	f	e	c	d	c
Naturhouse	17.29%	e	e	c	d	b
Neinor Homes	0.64%	e	e	c	d	c
Nextil	12.09%	f	e	c	d	b
Nicolás Correa	1.27%	f	e	c	d	c
NYSESA	3.94%	f	e	c	d	
OHLA	2.34%	f	e	c	d	b
Nueva Pescanova	0.71%	f	e	c	d	b
Pharmamar	2.59%	e	e	c	c	b
PRIM	9.11%	f	e	c	d	
PRISA	4.65%	e	d	b	d	b
Prosegur cash	6.44%	f	e	c	d	a
Puig	4.65%	f	e	b	d	a
Soltec	3.94%	e	e	c	d	b
Squirrel Media	2.76%	f	e	c	d	b
Talgo	0.38%	f	e	c	d	
Técnicas Reunidas	1.09%	f	e	c	d	a
Tubacex	3.04%	f	e	c	d	
Tubos Reunidos	1.20%	f	e	c	d	b
Urbas	1.23%	f	e	c	d	
Vidrala	3.61%	f	e	c	d	b
Viscofán	2.57%	e	e	c	d	a
Vocento	11.13%	e	e	b	c	a

↑ (1) Disclosure of variable lease payments not referenced to an index, as required by IFRS 16.53(e) and 59(b)(i). a: A general comment is made; b: The amount of payments made for this item is disclosed; c: An estimate of future impact is disclosed; d: The reasons for their use, their relative size, the key variables on which they depend, and how these variables are expected to change are explained; e: There are no significant variable payments; f: Not disclosed.

(2) Disclosures of lease term options and residual value guarantees, as required by IFRS 16.59.b.ii). a: An estimate of future impact is disclosed; b: Guaranteed amounts are disclosed; c: The reasons for using options and residual values, the relative magnitude of these amounts, the predominance of options not considered in the measurement of lease liabilities, the magnitude of exposure to residual value, and the nature of the underlying assets for which such guarantees are provided are disclosed; d: There are no significant residual value guarantees; e: Not mentioned.

(3) Leases not yet commenced, as required by IFRS 16.59.b.iv). a: The quantification of these contracts is disclosed; b: There are no significant contracts in this situation; c: Not mentioned.

(4) Description of covenants as required by IFRS 16.59(c) a: General description; b: Specific description; c: There are none that are significant; d: Not mentioned.

(5) Presentation and disclosure of lease payments during the period. a: They are presented in the statement of cash flows; b: They are disclosed with a quantified description; c: Neither presented nor disclosed.

9.3.4. Disclosure on exceptions to the right of use model

Exceptions to the right-of-use model, as provided for in IFRS 16, are frequently used (Table 17).

//// **TABLE 17** Disclosure practices on the low-value or short-term lease exemption (Part 1)

Company	Activity	Impact on liabilities	Low-value leases (1)	Short-term leases (2)
A3 Media	Media	0.46%	d	a
Adolfo Domínguez	Consumer products	31.75%	b	b
AEDAS Homes	Real estate	0.05%	b	b
Airbus	Transport	1.38%	d	d
Airtificial Intelligence	Software	1.91%	d	d
Alantra Partners	Advisory services	22.39%	b	b
Almirall	Pharmaceuticals	4.13%	c	c
Amper	Technology	3.05%	a	a
AMREST	Leisure	36.69%	a	a
APERAM	Manufacturing	3.62%	a	a
APPLUS	Professional services	10.40%	c	c
ATRYs Health	Health	9.85%	b	b
AUDAX	Energy	1.87%	c	c
CAF	Manufacturing	2.12%	b	b
Azkoyen	Manufacturing	8.15%	a	a
Bodegas Riojanas	Food and beverages	3.47%	b	b
Borges	Food and beverages	8.53%	d	a
CIE Automotive	Manufacturing	2.04%	d	d
Clínica Baivera	Health	51.82%	b	b
DIA	Distribution	15.92%	a	a
Dominion	Consultancy	2.19%	b	b
Duro Felguera	Engineering	0.21%	d	d
Ebro Foods	Food and beverages	3.61%	a, e	a
Ecoener	Energy	2.14%	b	b
Edreams	Leisure	0.68%		
Elecnor	Engineering	1.56%	d	a
Ence	Food and beverages	4.19%		c
Ercros	Manufacturing	2.89%	b	b
Ezentis	Engineering	3.00%	b	b
Faes Pharma	Pharmaceuticals	5.86%	c	c
FCC	Construction	4.11%	a	a
GAM	Business services	25.93%	a	b
Gestamp	Manufacturing	41.97%	b	b
Greenenergy	Energy	5.84%	b	b
Grupo San José	Construction	0.62%	a	a
Grupo Libertas 7	Real Estate	2.88%	b	b
Inmobiliaria del Sur	Real Estate	0.08%	b	b

↑ (1) Disclosure regarding leases qualifying for the low-value exemption (IFRS 16.53(d)). a: The amount is disclosed; b: The amount is disclosed aggregated with the other exemption for short-term leases; c: Aggregated with other amounts; d: The amount of these leases is not disclosed; e: Estimate of future value.

(2) Disclosure regarding leases qualifying for the short-term exemption (IFRS 16.53(c)). a: The amount is disclosed; b: The amount is disclosed aggregated with the other exemption for low-value leases; c: Aggregated with other amounts; d: The amount of these leases is not disclosed.

Quantitative information is usually aggregated for both exceptions (53-54.5%) and sometimes with other lease- and royalty-related items. Information is presented separately for each exemption in 15.2% of cases for low-value leases and 16.7% for short-term leases. In certain specific cases, the future impact of low-value contracts is disclosed (Ebro Foods, NYESA, Pharmamar, and Prosegur Cash).

//// **TABLE 17** Disclosure practices on the low-value or short-term lease exemption (Part 2)

Company	Activity	Impact on liabilities	Low-value leases (1)	Short-term leases (2)
Innovative Ecosystems	Software	0.81%	b	b
Laboratorios Reig Jofre	Pharmaceuticals	11.68%	b	b
Lingotes	Manufacturing	2.65%	b	b
MFE	Media	5.25%	b	b
Minor Hotels	Hotels	61.35%	b	b
Miquel i Costas	Manufacturing	1.02%	b	b
Montebalito	Real Estate	1.15%	c	c
Naturhouse	Manufacturing	17.29%	b	b
Neinor Homes	Real Estate	0.64%	b	b
Nextil	Manufacturing	12.09%		
Nicolás Correa	Manufacturing	1.27%	b	b
NYSESA	Real Estate	3.94%	b, e	b, e
OHLA	Construction	2.34%		
Nueva Pescanova	Food and beverages	0.71%	b	b
Pharmamar	Pharmaceuticals	2.59%	b, e	b, e
PRIM	Real Estate	9.11%	b	b
PRISA	Media	4.65%	a	
Prosegur cash	Business services	6.44%	b, e	b, e
Puig	Retail	4.65%	b	b
Soltec	Energy	3.94%	c	c
Squirrel Media	Media	2.76%	c	c
Talgo	Transport	0.38%	b	b
Técnicas Reunidas	Engineering	1.09%		
Tubacex	Manufacturing	3.04%	b	b
Tubos Reunidos	Manufacturing	1.20%	b	b
Urbas	Engineering	1.23%	b	b
Vidrala	Manufacturing	3.61%		
Viscofán	Manufacturing	2.57%	b	b
Vocento	Media	11.13%		

↑ (1) Disclosure regarding leases qualifying for the low-value exemption (IFRS 16.53(d)). a: The amount is disclosed; b: The amount is disclosed aggregated with the other exemption for short-term leases; c: Aggregated with other amounts; d: The amount of these leases is not disclosed; e: Estimate of future value.

(2) Disclosure regarding leases qualifying for the short-term exemption (IFRS 16.53(c)). a: The amount is disclosed; b: The amount is disclosed aggregated with the other exemption for low-value leases; c: Aggregated with other amounts; d: The amount of these leases is not disclosed.

10 IFRS 16 AND ALTERNATIVE PERFORMANCE MEASURES

The company's management uses Alternative Performance Measures (APMs) to communicate to investors their perspective on how the business should be understood. Therefore, in addition to a reconciliation with the accounting figures recognised in the financial statements, management must provide an explanation of the relevance of these APMs. IFRS 16 has brought about a significant change, and these measures have been used to communicate to investors the company's debt and EBITDA generation under both the previous standards and IFRS 16.

IFRS 16 affects three key parameters of the annual financial statements that can influence commonly used alternative performance measures. These are operating profit, operating assets and liabilities, which may affect EBITDA and net debt, as well as performance ratios such as ROA.

On the one hand, the impact on EBITDA arises because former operating leases are no longer considered operating expenses but are instead treated as investments with deferred payment. This parameter is usually presented in accordance with IFRS 16.

On the other hand, the deferral results in an increase in the entity's liabilities that is not actually a liability arising from obtaining new funds for the entity; it is a liability associated with the acquisition of a non-current asset. The treatment should be similar to that of liabilities with suppliers of non-current operating assets. Leasing would imply acquiring the right to use a non-monetary asset with spontaneous financing which, being long-term, is measured at its present value.

The main question arises as to whether this liability should be considered part of net debt. The recently approved IFRS 18 places these liabilities on a line separate from liabilities that represent cash inflows for the entity. If the concept of net debt is restricted to bank borrowings or funding obtained via market issuances minus cash, lease liabilities would be excluded.

From the standpoint of consistency in financial reporting, IFRS 16 results in changes to these metrics which, individually, are significant, but which collectively reflect the entity's capacity to repay its net debt. IFRS 16 increases EBITDA but does not imply that the lease liability should be included as net debt.

The presentation of the Net Debt/EBITDA ratio over time would require several adjustments:

- 1.- Maintain the pre-IFRS 16 concepts, exclude the lease liability, and deduct from IFRS 16 EBITDA the lease payments made that, under IAS 17, were considered operating expenses.
- 2.- Use IFRS 16 concepts, but include the lease liability among the components of net debt.

One of the difficulties associated with valuation models was already identified by AECA (2022: 195). Valuation models based on multiples are obtained for each type of activity or sector based on obser-

valuations of transaction prices in the securities market. In these, companies prepare their consolidated financial statements under IFRS, so the multiples are initially defined with IFRS-based parameters. If they are later applied to companies whose financial information is based on different criteria from IFRS, the multiples model may lead to errors.

//// **TABLE 18** Alternative Performance Measures

Company	Activity	Impact on liabilities	Net debt (1)	EBITDA (2)	Operating cash flow (3)	Net debt/EBITDA ratio (4)
Acciona	Constr. Concess. & Energy	2.77%	c	a	a	a
Acerinox	Manufacturer	0.40%	b	a	a	b
ACS	Constr. & Concess.	1.76%	a	a	b	b
Aena	Concessions	0.60%	a	a	a	a
Amadeus	Technology	2.50%	b	a	a	b
Arcelor	Manufacturer	2.48%	a	a	a	
Cellnext	Telecommunications	7.25%	a	b	b	c
Colonial	Real Estate	0.25%	b	b		
Enagas	Energy	5.87%	a	a	a	a
Endesa	Energy	2.30%	a	a	a	a
Ferrovial	Constr. & Concess.	0.69%	b	a	a	b
Fluidra	Manufacturer	7.95%	c	a	c	a
Grifols	Pharmaceuticals	7.46%	b	b	a	d
IAG	Airline	20.76%	a	a	a	a
Iberdrola	Energy	2.68%	a	a	a	a
Inditex	Retail	29.32%	b	a		
Indra	Engineering	2.76%	b	a	a	b
Logista	Retail	2.53%	a	a		a
Meliá	Hotel	33.61%	a	a		a
Naturgy	Energy	4.99%	a	a	a	a
Redeia	Energy	0.44%	b	a	a	b
Repsol	Energy	7.54%	a	a	c	
Rovi	Pharmaceuticals	5.33%	a	a	a	a
Sacyr	Constr. & Concess.	0.75%	b	a		
Solaria	Energy	9.39%	a	a		
Telefónica	Telecommunications	8.69%	c	a	c	

↑ (1) Alternative performance measures (Net or gross debt). a: Net debt includes lease liabilities; b: Net debt excludes lease liabilities; c: Net debt including and excluding lease liabilities is disclosed.

(2) Alternative performance measures (EBITDA). a: Calculated as under IFRS 16 (excludes depreciation of right-of-use assets and interest on lease liabilities); b: IFRS 16 figures are adjusted to obtain an EBITDA equivalent to that under IAS 17; c: Both IFRS 16 and IAS 17 calculations are provided.

(3) Alternative performance measures (Operating cash flow). a: Calculated as it would be under IFRS 16; b: IFRS 16 figures are adjusted to obtain an EBITDA equivalent to that under IAS 17; c: Both IFRS 16 and IAS 17 calculations are provided.

(4) Alternative performance measures (Net debt/EBITDA ratio). a: Calculated as it would be under IFRS 16; b: Lease liabilities are not included, but EBITDA is calculated under IFRS 16 criteria; c: Lease liabilities are included in net debt, but EBITDA is calculated under IAS 17; d: IFRS 16 is not applied, EBITDA is adjusted and lease liabilities are excluded from net debt.

Regarding the treatment of lease liabilities as part of the concept of financial debt, the analysis of the information provided in management reports and consolidated financial statements of listed groups (excluding financial and insurance sectors) shows that in 9 of the 26 cases reviewed, lease liabilities are not considered part of the alternative metric referred to in the International Financial Reporting Standards as "*gross or net financial debt*" (Table 18). In 3 other cases, they are included as part of this gross debt but also disclosed excluding them.

In the group of companies listed on the continuous market (Table 19), 31.8% of these include lease liabilities within the concept of financial debt, gross or net, while another 31.8% exclude lease liabilities from this concept. In 10.6%, the amount is calculated both including and excluding them. In 25.8%, it was not possible to determine or the figure for gross or net financial debt was not calculated.

//// **TABLE 19 Alternative Performance Measures in Groups on the Continuous Market (Part 1)**

Company	Activity	Impact on liabilities	Net debt (1)	EBITDA (2)	Operating cash flow (3)	Net debt/EBITDA ratio (4)
A3 Media	Media	0.46%		a		
Adolfo Domínguez	Consumer products	31.75%	b	a		
AEDAS Homes	Real estate	0.05%	a	a		
Airbus	Transport	1.38%				
Artificial Intelligence	Software	1.91%	a	a		a
Alantra Partners	Advisory services	22.39%				
Almirall	Pharmaceuticals	4.13%	b	a		b
Amper	Technology	3.05%				
AMREST	Leisure	36.69%	b	b		d
APERAM	Manufacturing	3.62%	a	a		a
APPLUS	Professional services	10.40%	b	a	a	b
ATRYs Health	Health	9.85%	b	a	a	b
AUDAX	Energy	1.87%	c	a		
CAF	Manufacturing	2.12%	b	a	a	b
Azkoyen	Manufacturing	8.15%	a	a	a	
Bodegas Riojanas	Food and beverages	3.47%	b	a		
Borges	Food and beverages	8.53%	a	a		
CIE Automotive	Manufacturing	2.04%	b	a	b	
Clínica Baivera	Health	51.82%	b	a		
DIA	Distribution	15.92%	c	c		
Dominion	Consultancy	2.19%	b	a		
Duro Felguera	Engineering	0.21%		a		
Ebro Foods	Food and beverages	3.61%	a	a		
Ecoener	Energy	2.14%	a	a		a
Edreams	Leisure	0.68%	a	a		
Elecnor	Engineering	1.56%	b	b		d
Ence	Food and beverages	4.19%		a		
Ercros	Manufacturing	2.89%	a	a		a
Ezentis	Engineering	3.00%	a			
Faes Pharma	Pharmaceuticals	5.86%	a	a		
FCC	Construction	4.11%	a	a		
GAM	Business services	25.93%	c	a		
Gestamp	Manufacturing	41.97%	c	c		a, d
Greenenergy	Energy	5.84%	a	a		
Grupo San José	Construction	0.62%	a	a		
Grupo Libertas 7	Real Estate	2.88%	b			
Inmobiliaria del Sur	Real Estate	0.08%				

↑ (1) Alternative performance measures (Net or gross debt). a: Net debt includes lease liabilities; b: Net debt excludes lease liabilities; c: Net debt including and excluding lease liabilities is disclosed.

(2) Alternative performance measures (EBITDA). a: Calculated as under IFRS 16 (excludes depreciation of right-of-use assets and interest on lease liabilities); b: IFRS 16 figures are adjusted to obtain an EBITDA equivalent to that under IAS 17; c: Both IFRS 16 and IAS 17 calculations are provided.

As regards EBITDA, 60.6% of groups on the continuous market use the figures without adjusting for the effects of IFRS 16, which results in an increase in this figure compared with the previous standards. In 6.1% of cases, the groups determine EBITDA in accordance with the standards prior to IFRS 16 when relating it to debt, and in another 6.1% they present both calculations, under IFRS 16 and under IAS 17.

//// **TABLE 19** Alternative Performance Measures in Groups on the Continuous Market (Part 2)

Company	Activity	Impact on liabilities	Net debt (1)	EBITDA (2)	Operating cash flow (3)	Net debt/EBITDA ratio (4)
Innovative Ecosystems	Software	0.81%				
Laboratorios Reig Jofre	Pharmaceuticals	11.68%				
Lingotes	Manufacturing	2.65%				
MFE	Media	5.25%				
Minor Hotels	Hotels	61.35%	a	c		a
Miquel i Costas	Manufacturing	1.02%				
Montebalito	Real Estate	1.15%	b	a		
Naturhouse	Manufacturing	17.29%				
Neinor Homes	Real Estate	0.64%				
Nextil	Manufacturing	12.09%				
Nicolás Correa	Manufacturing	1.27%	a	a		a
NYSESA	Real Estate	3.94%				
OHLA	Construction	2.34%	b	a		
Nueva Pescanova	Food and beverages	0.71%	a	a		
Pharmamar	Pharmaceuticals	2.59%	b	a		
PRIM	Real Estate	9.11%	a	a		
PRISA	Media	4.65%	b	a		
Prosegur cash	Business services	6.44%	c	a		b
Puig	Retail	4.65%	a	b		b
Soltec	Energy	3.94%	b	a		
Squirrel Media	Media	2.76%	b	a		
Talgo	Transport	0.38%	a	a		
Técnicas Reunidas	Engineering	1.09%	b			
Tubacex	Manufacturing	3.04%	b	a		
Tubos Reunidos	Manufacturing	1.20%				
Urbas	Engineering	1.23%	a			
Vidrala	Manufacturing	3.61%	b	b		
Viscofán	Manufacturing	2.57%	c	a		
Vocento	Media	11.13%	c	c	b	

↑ (1) Alternative performance measures (Net or gross debt). a: Net debt includes lease liabilities; b: Net debt excludes lease liabilities; c: Net debt including and excluding lease liabilities is disclosed.

(2) Alternative performance measures (EBITDA). a: Calculated as under IFRS 16 (excludes depreciation of right-of-use assets and interest on lease liabilities); b: IFRS 16 figures are adjusted to obtain an EBITDA equivalent to that under IAS 17; c: Both IFRS 16 and IAS 17 calculations are provided.

11 Users' feedback

Users' feedback needs to be differentiated according to the use they make of the information. The lease accounting standard affects, on the one hand, the assessments made by credit analysts when making decisions on whether to grant credit or on its pricing. In addition, IFRS 16 can also influence the decisions of investment analysts, due to the impact of the standard on the EBITDA figure. Moreover, as noted by AECA (2022), this impact may be significant in certain sectors when valuation models based on EBITDA multiples are applied uncritically to value companies that do not report under IFRS 16.

In the case of leases, one approach to assess which information is relevant to analysts is to observe how groups present this information in their periodic results presentations. As shown in Table 10, it is common among entities for which IFRS 16 has had a more significant impact to make some adjustment to the figures obtained under IFRS 16. Only in the case of IAG has no adjustment been observed, although there is a note stating that the figures prior to 2019 did not apply IFRS 16.

//// **TABLE 10** References to the exclusion of IFRS 16 in the calculation of certain metrics in presentations to analysts by listed entities

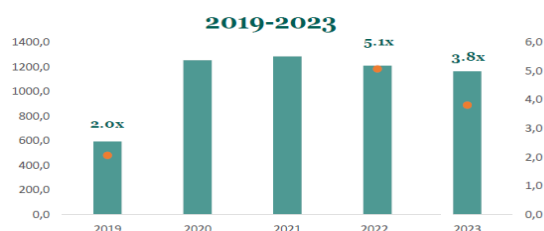
Entity	Source		
Inditex (results presentation 2023) ⁹	Flows generated		
	MILLION EUROS	2023	2022
	Funds from Operations(*)	6,991	5,722
	Change in working capital	-56	-669
	Cash from Operations	6,934	5,053
	Capital expenditure	-1,872	-1,415
	Free Cash Flow	5,062	3,638

Fuente: INDITEX | FY2023 Results

Meliá Hoteles Internacional
(results presentation H1-2024)¹⁰

Financial Position

Net Debt/EBITDA*



Focus on reducing Net Debt/EBITDA to Pre-Covid levels

* Net debt and EBITDA are considered without the impacts of IFRS 16

4

9 See page 22. Available at: <https://www.inditex.com/itxcomweb/api/media/72acd9a9-c60c-4bae-acb6-515b55d8ce04/FY2023+Resultados.pdf?t=1710348212979>

10 See page 14. Available at: <https://www.meliahotelsinternational.com/es/shareholdersAndInvestors/FinancialDocs/2024/MHI%20Investors%20Presentation%20-%20AUGUST%202024.pdf>

AMREST (presentation H1-2024)¹¹

4



**Financial risk
profile**

Leverage ratio*
ra

5

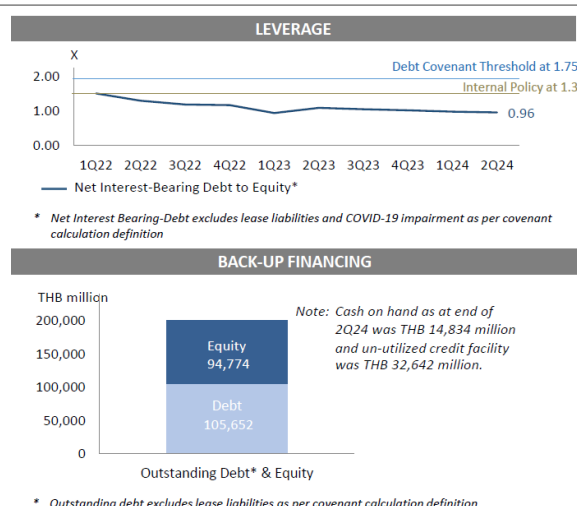


Restaurants

40 new restaurant

* Leverage ratio - (net financial debt/EBITDA Non-IFRS16)

Minor Hotels. Results
presentation (Q2-2024)¹²



Adolfo Domínguez (1Q-2024)¹³

EBITDA (Earnings Before Interests, Tax, Depreciation and Amortization):
The company's profit before deducting interest payable on incurred debt, business-related taxes, impairment and depreciation/amortisation of non-current assets.

Net Financial Debt/EBITDA (NFD/EBITDA):
Does not include lease liabilities. EBITDA excludes effect of the of IFRS 16 reversal.

As a complement to this initial information, this section includes the views expressed by these user groups.

11.1. Credit analysts

Table 11 shows a widespread view of improved reporting following the adoption of IFRS 16. These improvements are identified as a reduction in the research effort required under previous accounting standards, as well as greater clarity and comparability. In one case, a participant indicated that their approach in this area diverges from the accounting standard.

11 Available on page 3: <https://www.amrest.eu/es/inversores/equity-story-y-presentaciones?region=a2014d2e-8c81-40e0-914d-cf0c6e-7c3acd>

12 Available on page 24: <https://mint.listedcompany.com/misc/presentation/20240809-mint-company-presentation-2q2024.pdf>

13 Available on page 24 1Q2024: <https://www.adolfodominguez.com/es-es/press-area/results>

//// TABLE 11 General opinion on the usefulness of IFRS 16

Is IFRS 16 more useful than its predecessor for analysing credit risk? How has your analysis approach changed? How did you view liabilities before and how do you view them now? Has having this information presented saved you work?

Yes, it is useful, as it provides a more transparent view of companies' obligations and/or payment commitments, especially in those businesses where leases are a material component of the operation of assets related to their activity. In those types of companies, in particular, it offers a more accurate view of the cash generation available to repay debt, which is the main difference from the pre-IFRS 16 approach.

Previously, it was necessary to investigate and ask questions, and often the available information was not as accurate as it is under the new standard. IFRS 16 improves the clarity with which liabilities are identified, as well as their nature and significance for business continuity, and it eliminates the need for time-consuming case-by-case analysis, thanks to its transparency in disclosing liability types.

Its usefulness is relatively limited, but it provides more information, which makes it relevant, especially in corporate settings. Credit approval processes do not strictly follow ratios derived from accounting data and balance sheets; instead, these are adjusted based on elements that are irrelevant from the credit approval standpoint.

This has always been the case for companies with significant lease impacts, where financial debt is adjusted for approval purposes. Airlines, car rental operators, and retailers with substantial lease volumes etc.

The adjustment made to financial debt follows the criteria of the credit approval team, which may differ from those in the accounting standard (e.g. regarding minimum lease payments).

In the case of syndicated or other types of financing with covenants, at least in the cases we have seen, a definition of financial debt is used that does not follow accounting standards, but rather includes leases with specific characteristics. In parallel, a credit analysis is conducted using the aforementioned criteria.

The analysis and comparability of financial statements have undoubtedly been simplified, as prior to IFRS 16, adjustments had to be made to the financial statements for rating purposes, which added complexity and required having both audited accounts and adjusted accounts (covering assets, debt, EBITDA, finance costs, depreciation, etc.) in the system. In fact, a tool was developed to calculate the necessary adjustments to assist analysts.

Without a doubt, it provides better accounting recognition of the assets available to the company and the costs associated with their use. Prior to the widespread adoption of IFRS 16, we used to estimate leases, their types, and the amount of commitments. Now, companies provide this information directly in their accounting, making the data more objectively quantifiable. Undoubtedly, in the context of a company with lease contracts in force, the liabilities on the balance sheet increase, and this, in turn, reduces the weight of equity. It has indeed saved work. As mentioned earlier, the estimate work we used to carry out before IFRS 16 is now provided to us, and integrated both in the financial statements and in the full set of analytical ratios.

Yes, it is more useful because previously manual adjustments had to be made to incorporate operating leases into the analysis. Now, the obligations arising from those leases are reflected directly in the balance sheet and income statement, which gives us a clearer view of companies' indebtedness without having to make adjustments.

This improvement in information has not, however, led to changes in the tools used to assess debtor scoring or credit pricing. Some entities have indicated that IFRS 16 does influence the scoring results and, consequently, the pricing. The new standard avoids the need to make adjustments to the information used in the model (Table 12).

//// **TABLE 12** Modification of decision-making tools following the adoption of IFRS 16

Have you modified your scoring and pricing tools as a result of the implementation of IFRS 16? Do you use this new scoring and pricing for companies that do not apply IFRS 16?

IFRS 16 has an impact on rating calculations, where cash generation capacity relative to debt (repayment capacity and, therefore, credit quality) is relevant, and by extension on pricing, which is based on that rating to determine and differentiate the risk premium associated with the borrower.	Not for this reason. The credit rating depends on the origination analysis. Therefore, as these elements are already considered in credit approval, the rating mechanics have not changed. Pricing is determined based on risk adjustments, among other factors. Since this element is already considered in the risk assessment, it was already included in the price.
The rating tool has not been specifically modified because of this matter, but it is no longer necessary to introduce adjustments to the financial statements in order to calculate the rating.	In the financial module used to calculate probability of default (PD), the weightings of certain ratios related to indebtedness, EBITDA, equity, interest coverage, asset turnover, etc. have been adjusted. This is not a new scoring or pricing system, but, as noted, a change in weightings, where there is accounting recognition of ROU (Right of Use) assets or lease liabilities. Therefore, the ratios are essentially the same, but their weightings are adjusted.
In principle, the impact has not been considered sufficiently material in our origination portfolio, due to the type of clients we deal with, for it to be incorporated.	

There was no consensus on this point. One participant stated that EBITDA under IFRS 16 better reflects cash generation. The changes have occurred by excluding IFRS 16 from the calculation or by modifying criteria as credit arrangements have been renewed (Table 13).

//// **TABLE 13** Change in covenants following the adoption of IFRS 16

How have covenants changed after the adoption of IFRS 16 in companies that apply this framework?

The main accounting item linked to financing covenants that is affected by IFRS 16 is EBITDA, which influences its definition and transforms the ratios used to monitor financing agreements. Thus, the EBITDAs in question, which always carry a certain degree of subjectivity, come closer, in our view, to the actual level of cash available for debt servicing.	They have not been affected.
Following the adoption of IFRS 16, different situations have arisen. In some cases, the IFRS 16 effect has been excluded from covenant calculations, or specific amendments have been made (or an upcoming refinancing has been used) to incorporate this effect into financial definitions (by increasing the covenant and adjusting the pricing grid, where applicable).	The impact has not been very significant, as in financing transactions linked to covenant compliance, we had already taken into account the weight (not recognised in accounting before IFRS 16) of operating leases and, therefore, the ranges of ratios linked to these aspects were established to reflect their impact on financial statements year by year. Nevertheless, in the covenant structures of financing transactions entered into after the application of IFRS 16, the outcomes of the ratios affected by the recognition of ROU assets and lease liabilities are automatically taken into account.
Covenants have had to be adapted to IFRS 16, including both Debt-to-EBITDA covenants and debt service coverage covenants. In some cases, companies have requested waivers during this adaptation period in order not to breach covenants due to a situation arising from the accounting change.	

In general, all participants emphasise that the information is better after the adoption of IFRS 16. Some participants underline the confirmatory nature of this information disclosed in the Notes. Others have stated that there is room for improvement if more information could be provided about the contracts, while preserving confidentiality (Table 14).

//// **TABLE 14** Information disclosed in the Notes to the financial statements following the adoption of IFRS 16

Is the information disclosed in the Notes about leases under IFRS 16 useful? Which of the required elements are disclosed less clearly? What information could be added to the Notes regarding leases under IFRS 16?	
Yes, it is useful; there may be room for improvement in the more specific information about leases, although this could come up against confidentiality constraints in the contracts, which tend to be general, as do the discount rates and/or depreciation of right-of-use assets.	Yes, it clearly serves as a point of comparison for our credit approval criteria and helps refine the model. It encourages discipline in the breakdown of financial debt, which is highly relevant for measuring leverage.
Yes, even though we no longer make the adjustment, it allows us to understand the impact of leases on the company's indebtedness. Which of the required elements are disclosed less clearly? The breakdown of lease expenses by year, which in many cases is grouped into periods.	Depending on the quality and depth of the Notes, we sometimes find a lack of detail regarding the nature of the lease contracts, the terms, the type of retrospective approach used for measurement, the existence or otherwise of substantive substitution rights, rights or restrictions on use of the asset, fixed or variable payments, in foreign or local currency, etc.
More detail could be provided on the parameters used (discount rates, inflation used in forecasts); the income statement could present the impact of IFRS 16 separately, to facilitate comparison with companies that have not adopted IFRS; and sensitivity analysis could be included for inflation in the discount rate e.g. Additionally, information could be disclosed about leases with variable payments in order to provide insight into these agreements.	

Participants have pointed out some areas for improvement (Table 15). One of these relates to the need for greater standardisation in the information disclosed in the Notes, and another to the choice of recognising interest expense on a straight-line basis rather than using the effective interest method. This would cause the annual lease expense to match the cash outflow.

//// **TABLE 15** Aspects for improvement in IFRS 16

What improvements could be made to IFRS 16?	
An increase and greater standardisation in the minimum information to be reported, thereby providing greater transparency.	The main point for me is that the standard should achieve accounting symmetry in the statement of P&L. Currently, depreciation differs from interest expense, which follows the effective interest method. The sum of depreciation and interest expense should equal the lease payment itself. Therefore, it may be necessary to review the depreciation criterion.
No comments.	There is no doubt that the application of IFRS 16 may at first appear straightforward, as it involves recognising an asset and a liability for the same amount. However, it presents complexities in the calculation and accounting treatment. Since it affects procedures and systems and gives rise to different interpretations, we believe that a clearer definition of different scenarios, and harmonisation of criteria, would be very useful for both companies and external analysts.
As mentioned in point 5, a breakdown could be included in the income statement comparing results with and without the IFRS impact, sensitivity analysis could be introduced, and the information about leases with variable payments could be expanded.	

11.2. Investment analysts

Investment analysts have shared with us some points of interest regarding the effect of IFRS 16 on their company valuation work. In general, it is considered that the improvement in information comes from a better presentation of the entity's risks and leverage (Table 16).

//// **TABLE 16** General opinion on the usefulness of IFRS 16

Is IFRS 16 more useful than its predecessor for analysing a company's value?

For valuation purposes, it is not more useful, as the equity value should be the same, and the key metric for determining it, i.e. the company's ability to generate cash for its shareholders, should remain unchanged. However, until consensus is reached, it does raise additional questions to ensure there is no asymmetry in commercial discussions: e.g., are we negotiating on a pre- or post-IFRS basis? Do we understand in the same way how IFRS affects the methodology and are we able to reach the same result in a negotiation?	We believe it better reflects the company's risks and leverage in cases where operating leases are highly relevant to its business (e.g. hotel chains). In cases where leasing is incidental or not very relevant to the company's structure or business model, the new standard may somewhat distort valuation ratios and multiples related to EBITDA.
Yes. The financial information is more complete than without the IFRS 16 adjustment. The company's liabilities are more accurately represented.	No, my analysis focuses on cash and risk (in the discount rate) for valuation, and neither of those aspects is truly affected.

EBITDA has changed following IFRS 16, but has this change affected the method of analysis? (Table 17). One analyst indicated that the accounting method should not affect cash flows and explained that IFRS 16 should not impact share valuation. Another analyst made two interesting points. The first is to adjust EBITDA by the amount of lease expenses, leaving EBITDA based on IAS 17, but warned that this should only be done in cases where it is relevant.

//// **TABLE 17** Change in EBITDA and effect on analysis

IFRS 16 has a significant impact on the calculation of EBITDA because the operating expense under IAS 17 or the Spanish PGC, which affects the determination of EBITDA, is placed below EBITDA under IFRS 16. How do you adjust EBITDA multiples when the benchmark applies IFRS 16 and the company being analysed does not?

In a post-IFRS 16 world, EV (Enterprise Value) / EBITDA might look as follows: 1. $EV = \text{Equity Value} + \text{Net Debt}$ 2. $\text{Net Debt} = \text{Financial Liabilities} - \text{Cash} + \text{Perpetual value of lease liabilities}$. This will result in a higher EV under IFRS16. 3. EBITDA = since operating lease expenses are excluded from results, EBITDA under IFRS 16 will also be higher. In order to arrive at the Equity Value, there are two alternatives: 1. Direct: discounted cash flow to shareholders. IFRS 16 should be neutral for determining cash flow to shareholders (except for possible tax effects) 2. Indirect: calculate Equity Value through the Equity Bridge, i.e. $EqV = \text{Enterprise Value} - \text{Net Debt}$ (with Net Debt including the perpetual value of leases) In theory, we should arrive at the same Equity Value, assuming: i) Should the discount rate used for the lease perpetuity be the WACC or the implicit lease rate? ii) Is there any tax effect due to the reclassification that is affecting taxes paid one way or another?	The most "economic" option is to adjust the EBITDA of the company being analysed by the amount of lease expenses. However, this must be considered on a case-by-case basis, depending on the relevance of lease expenses for the investee.
It depends on the case. In general, if the company applies IFRS 16 and there is a material impact on EBITDA, the relevant multiple has changed. As EBITDA is higher, the multiple is lower. A change in accounting rules does not in itself mean the company is worth more or less.	For me, leasing is an operating expense and therefore reduces EBITDA; that's how we treat it, regardless of the standard applied.

In light of these regulatory developments, the question has been raised whether new metrics should be developed. The response is unanimous and negative (Table 18).

//// **TABLE 18** Alternate performance measures

Do you propose alternative performance measures following the adoption of IFRS 16?	
No. I don't think the focus should be on alternative measures but rather on ensuring that both parties have the same understanding of the impact of IFRS 16, how it is applied, and that the negotiation is conducted on the same terms.	No
No	For me, the only impact it has is if lenders believe it reduces debt capacity, but in my view it shouldn't, because it's just an accounting standard that doesn't change the company's real situation.

Analysts also agree on the relevance of the information disclosed in the Notes, as it helps provide a clearer picture of the financial position, but only in certain sectors. In others, it merely adds complexity (Table 19).

//// **TABLE 19** Usefulness of information disclosed in the Notes

Is the information disclosed in the Notes about leases under IFRS 16 useful?	
For valuation purposes, as long as both parties are aligned and negotiating on the same terms, no. For due diligence purposes, yes: it is very useful information about a company's financing policy.	It is relevant in certain sectors; in others, it only adds complexity.
The information included in the balance sheet is valuable. Whether the information in the Notes adds value depends on the case.	Yes, because knowing the conditions of your long-term leases is always useful, especially when they represent significant expenses.

Finally, one analyst notes that the standard should provide information that makes it easier to determine the probable renewal of leases, as this helps in estimating the value of the debt and, in turn, the value of the company. Another analyst warns that the standard only affects certain types of businesses, such as hotels, airlines or retail (Table 20).

//// **TABLE 20** Possible Improvements to IFRS 16

What improvements could be made to IFRS 16?	
As a valuation professional, the key judgement to be made concerns the following parameters. Does IFRS16 give us sufficient information on reporting requirements right now? 1) What is the company's annual recurring cash outflow for finance leases? This input is used to calculate the "perpetual debt" the company requires, which should be part of the EV. 2) What is the average lifespan of the leases that have been reported? 3) Are there any leases that contractually or operationally are not expected to be renewed? Could that lease have a significant impact on the business? This question has financial implications, in terms of whether to exclude the lease from the estimate, and strategic ones, in terms of its impact on business value.	It would have made more sense as a sector-specific plan, applicable only to certain industries.
It is true that variable payments (at least some of them) could also be recognised as liabilities to make financial statements more comparable. There is also sometimes a lack of information on the enforceability of payment obligations. Furthermore, financial statements of companies applying IFRS and those that do not are not comparable.	No comment.

12 Conclusions

The study has focused on the analysis of lessees, since IFRS 16 represents a substantial change in their accounting. As a conclusion to this study, we aim to address the objectives set out by the IASB at the start of this PIR.

- In general terms, the evidence from the EFRAG survey (2024) and the opinions expressed by users with whom we have engaged show that, **IFRS 16 has improved transparency by presenting right-of-use assets and lease liabilities on the statement of financial position**, which users previously had to estimate, less accurately, using alternative methods.

From a user benefits perspective:

- Users have explicitly stated that **such adjustments are no longer necessary, which improves the reliability of the information used** and reduces the cost of assessing and monitoring the entity. Our study shows that the multiple obtained using the recognised liability divided by the estimated lease payment, which would correspond to the expense under IAS 17, is lower than the multiples typically used by credit analysts. This is approximately 4.
- This standard **improves comparability** between capital assets acquired outright and financed with debt, and capital assets controlled through leasing arrangements, by recognising assets and liabilities in the same way regardless of the lease term. Prior to IFRS 16, the legal instrument used to control a capital asset over a period of time could result in a completely different presentation in the primary financial statements. However, full comparability between the two forms of control (financed acquisition and leasing) will not be possible, because in the first case the liability forms part of financial debt obtained to raise funds, whereas the lease liability is part of liabilities not arising from the raising of cash. We also observe a **high degree of diversity** in relation to the **inclusion or exclusion of lease liabilities** between the components of gross debt or net debt.
- The information recognised in the statement of financial position in relation to leases depends on three parameters that involve estimate uncertainty: contracted payments (when variable), the lease term and the discount rate. Variable payments may be sector-specific or immaterial. However, the lease term and assessment of term options are both frequent and relevant. IFRS 16 does not require disclosure of how **judgements regarding lease term** have been made, even though this is a key factor in determining the value of the asset and the liability. Such disclosure would contribute to a faithful representation of the information and better understanding of the rationale for these clauses in contracts and how the entity manages its capital assets controlled through leasing.
- Similarly, **the discount rate** is relevant to the measurement of right-of-use assets and lease liabilities, but there is no disclosure of the entity's average discount rates or their breakdown by geography, even though these may vary significantly. This information would help users understand the reporting of entities operating in territories with different economic conditions.

From the perspective of costs for preparers:

- IFRS 16 has required considerable interpretative effort, and there have been numerous **agenda decisions** issued by the Interpretations Committee, as well as **amendments** to the standard itself.

- The most complex issues relate to **professional judgement**, with risk arising from the high degree of subjectivity associated with certain estimates. This report includes analysis of these difficulties in estimating lease terms, calculating discount rates, and addressing certain issues related to the existence of a lease, for example, power purchase agreements (PPAs).
- One of the most debated issues during the approval process of IFRS 16 was the **treatment of variable lease payments**. This debate was so extensive that the reasoning for excluding payments not linked to an index is twofold: the high subjectivity of their estimate (which relates to faithful representation) and the view that such payments do not represent a liability because the lessee can avoid them (an argument based on relevance of information). Disclosures about such clauses are infrequent, although IFRS 16 includes some requirements in this respect. However, **one of the issues that generates interpretative doubt is when a payment is considered to be, in substance, fixed**. Some positions argue that a payment is essentially fixed when the variability clause is not genuine, that is, when it is highly unlikely to be triggered. Other positions identify a payment as, in substance, fixed when it is a minimum lease payment that is highly probable.
- Complexity is also observed in the interaction of IFRS 16 **with other standards, such as IFRS 15**. This occurs in two cases: first, in the **separation of lease and service components** that would be recognised as revenue under a multiple-element contract; and second, in meeting the criteria to determine whether a sale has occurred in a sale-and-leaseback transaction. In the latter case, **sale-and-leaseback**, the inconsistency in the treatment of variable payments in the leaseback compared to the treatment of similar payments in other leases is of concern. In our opinion, this transaction could be interpreted as a variable payment in the sale price, which would be recognisable under IFRS 15. It is undeniable that the clauses in a sale-and-leaseback agreement are interrelated and should be assessed as a whole rather than in isolation under each contract.
- The **interaction with IFRS 9** has led to a recent amendment to that standard, which was questioned by EFRAG during the consultation process, and which should be analysed in more depth in a dedicated standard project. IFRS 16 already regulates lease liabilities, so the existence of regulation under IFRS 9 for some aspects of those liabilities creates coordination difficulties.
- One area where we observe diversity is how performance of **the impairment test** is interpreted. This diversity has been observed particularly among groups listed on the continuous market. Some entities deduct the lease liability from the right-of-use asset when performing the impairment test, while others exclude lease liabilities altogether.
- With regard to **costs of major repairs on leased assets**, there is another significant point of contention, as such costs may be treated either as a component under IFRS 16 and therefore depreciated, or as an annual provision (under IAS 37 and IFRIC 1). Entities must develop an accounting policy in the absence of specific guidance under IFRS 16, which may result in reduced comparability of financial statements between companies adopting different policies.
- Communication of information to users is also expressed through the development of **alternative performance measures**. With limited exceptions, EBITDA is reported under IFRS 16. Our analysis of IBEX 35 groups has revealed significant diversity in how lease liabilities are classified, whether or not as financial debt. When this information is not included, it is equivalent to reporting under the previous standard (IAS 17). However, we observe that EBITDA is calculated under IFRS 16, yielding values much higher than under the former standard. Ultimately, the debt coverage ratio (EBITDA/gross or net financial debt) reflects the benefits that IFRS 16 brings in terms of EBITDA improvement, but not the negative impact on the ratio through inclusion of lease liabilities.

Other comments:

- The debate on the asymmetry in the treatment of lessors and lessees was resolved in the early stages of the project (2009 Discussion Paper), without any conceptual justification. In our opinion, the priority was to address the informational shortcomings in lessees' financial statements through a new model, even though it had already been proposed in 1996 in the G4+1 paper

(McGregor, 1996), and this led to a decision not to complicate the proposal. Now that the right-of-use model is functioning reasonably well, we believe the time has come to address the inconsistency arising from the asymmetric accounting of a contract that gives rise to symmetrical rights and obligations. From an economic rationality perspective, it makes complete sense to view a lease as the partial sale of the services that an asset can provide.

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Annex 1. Evidence on the treatment of lease liabilities in the calculation of gross and net financial debt

Entity	Alternative Performance Measures	
Acciona. Note 17.g) (p. 97)	Net debt is calculated as the sum of current and non-current financial debt, excluding debts relating to held-for-sale assets, less current financial assets and cash and cash equivalents. The leverage ratio at 31 December 2023 and 2022 was as follows (millions of euros):	
	Leverage	20232022
	Net financial debt	6.5515.253
	Non-current bank borrowings	3.8092.624
	Non-current debentures and other marketable securities	4.2363.101
	Current bank borrowings	805553
	Current debentures and other marketable securities	1.2141.139
	Financial debt	10.0647.417
	Non-current lease obligations	687439
	Current lease obligations	12472
	Lease obligations	811511
	Other current financial assets	(610)(315)
	Cash and cash equivalents	(3.714)-2,36
	Cash and current financial assets	(4.324)(2.675)
	Equity	6.8516.304
	of the Parent Company	5,014.885
	of non-controlling interests	1.8421.419
	Leverage	96%83%

The management report includes the figure with an alternative value that excludes IFRS 16 (p. 219):

<i>(millions of euros)</i>	FY 2023	FY 2022	Chg. %
Attributable equity	5.009	4.885	2.5%
Net financial debt excluding IFRS 16	5,74	4.742	21.0%
Net financial debt	6.551	5.253	24.7%
NFD/EBITDA	3,31x	2,54x	30.2%
<i>(millions of euros)</i>	<i>31-12-23</i>	<i>31-12-22</i>	<i>Chg. %</i>
Ordinary CAPEX	3.122	1.943	60.7%
Net investment cash flow	3.327	2.004	66.0%

ACS. Glossary of APMs (p. 570)

(1) Gross Financial Debt

Bank borrowings + Bonds and other negotiable securities + Project finance and limited recourse debt + Finance lease creditors + Other non-bank long-term financial debt + Debt with Group companies

AENA. APM (p. 78)

The definition of the terms included in the calculation is as follows:

Financial Debt: means all interest-bearing financial indebtedness of a financial nature arising from:

loans, credit facilities and bill discounting;

any amount due in respect of bonds, debentures, notes, debt and, in general, instruments of a similar nature;

any amount due in respect of lease agreements that, under the applicable accounting standards, would be treated as financial debt;

financial guarantees assumed by AENA that cover all or part of a debt, excluding those guarantees related to debts of entities consolidated by integration; and

any amount received under any other type of agreement that has the effect of commercial financing and which, under the applicable accounting standards, would be treated as financial debt.

Cash and cash equivalents

Definition in paragraph 7 of IAS 7 "Statement of Cash Flows."

Amadeus. Management report (p. 116 and p. 136)

Net financial debt according to our financing agreements is calculated as current and non-current debt (as per the annual financial statements), minus cash balances and other equivalent assets, and short-term investments considered equivalent to cash under the terms of our financing agreements. All of this is adjusted for liabilities arising from operating leases (as defined under the previous lease accounting standard IAS 17, and now considered lease liabilities under IFRS 16) and for non-debt items (such as deferred financing fees and accrued interest). A reconciliation to the annual financial statements is provided in section 6.2

6.2. Statement of financial position (summarised)

€millions	Dec 31, 2023	Dec 31, 2022	Change
Net financial debt (as per financial statements)	2,270.5	2,406.5	(136.0)
Operating lease liabilities	(123.9)	(130.9)	7.1
Interest payable	(24.6)	(29.2)	4.5
Convertible bonds	10.7	18.9	(8.2)
Deferred financing fees	7.9	19.3	(11.4)
Net financial debt (as per facility agreements)	2,140.6	2,284.5	(143.9)

Under the terms of the financing agreements, financial debt (i) excludes debt related to assets under operating leases (as defined under the previous lease accounting standard IAS 17 and now considered lease liabilities under IFRS 16, and which are included as financial debt in the statement of financial position) in the amount of €123.9 million as at 31 December 2023; (ii) excludes accrued interest payable (€24.6 million as at 31 December 2023), which is recognised as financial debt in our annual financial statements; (iii) includes the portion of the convertible bond issue that is recognised as equity instruments in our annual financial statements (€40.1 million) and excludes accrued implicit interest on the convertible bonds (€29.4 million), which has been recognised as financial debt in our annual financial statements; and (iv) is calculated at nominal value, whereas in our annual financial statements financial debt is measured at amortised cost, i.e. after deducting deferred financing fees (€7.9 million as at 31 December 2023).

Arcerlor. Note 6.1.2.

Net debt (defined as long-term debt (\$8.4 billion) plus short-term debt (\$2.3 billion), less cash and cash equivalents, restricted cash and other restricted funds (\$7.8 billion)) was \$2.9 billion as of December 31, 2023, up from \$2.2 billion at December 31, 2022, comprised of long-term debt (\$9.1 billion) plus short-term debt (\$2.6 billion), less cash and cash equivalents and restricted cash (\$9.4 billion). Most of the external debt is borrowed by the parent company on an unsecured basis and bears interest at varying levels based on a combination of fixed and variable interest rates. Gearing (defined as net debt divided by total equity) at December 31, 2023 and 2022 was 5% and 4%, respectively. See note 6.3 to the consolidated financial statements.

Note: Lease liabilities are included in financial debt

Cellnext. Note 4.c (p.56).
Management report 2.4.5
(p. 122)

	Thousand of Euros	
	31 December 2023	32 December 2022
Bank borrowings (Note 15)	4.391.837	3.838.178
Bond issues (Note 15)	14.303.672	14.045.410
Lease liabilities (Note 16)	2.814.419	2.985.855
Cash and cash equivalents (Note 13.a)	(1.292.439)	(1.038.179)
Other financial assets (Note 13.b)	(115.581)	(93.242)
Net Financial Debt (1)	20.101.908	19.738.022
Net equity (Note 14)	15.146.793	15.189.400
Total capital (2)	35.248.701	34.927.422
Net Debt / Equity Ratio (1)/(2)		57 %

Management report:

Gross Financial Debt includes "Bonds and other loans," "Loans and credit facilities," and "Lease liabilities," but excludes debt of group companies accounted for using the equity method, "Derivative financial instruments," and "Other financial liabilities." "Lease liabilities" are calculated as the present value of lease payments payable over the lease term, discounted at the implicit interest rate or the lessee's incremental borrowing rate.

Enagás. APM

	Q4 2024
Cash and cash equivalents	1,295.7
Debts with credit institutions	-341.8
Debentures and other marketable securities	-2,971.9
Other financial liabilities (*)	-386.0
Net debt	-2,404.1

(*) The amount included under this item relating to the recognition of financial liabilities under IFRS 16 totals €379 million. Additionally, debt granted by entities other than credit institutions amounts to €0.8 million.

Endesa. Note 41.3 (p. 416)

Notes	31 diciembre 2023		Total	Fair value
	Nominal value	Non-current	Carrying amount Current	
Bonds and other marketable securities	12	14	—	14
Bank borrowings	6,095	5,302	744	6,046
Other borrowings	7,673	4,320	3,347	7,667
Borrowings associated with rights of use	868	784	84	868
Other	6,805	3,536	3,263	6,799
TOTAL⁽¹⁾	13,780	9,636	4,091	13,727

(1) Corresponding to financing sustainable at 67%.

Ferrovial. Management
report. APM (p. 274)

Consolidated Net Debt corresponds to our net cash and equivalents balance (including restricted cash, both short- and long-term) less financial debt (bank debt and bonds, including both short- and long-term debt), including an amount related to foreign exchange derivatives (covering both debt issued in a currency other than that used by the issuing company and cash positions exposed to foreign exchange risk). **Lease liabilities are not included in Consolidated Net Debt.** Consolidated Net Debt is a financial measure not based on IFRS and should not be considered as an alternative to net income or any other measure of financial performance calculated in accordance with IFRS

Fluidra. Alternative Performance Measures

Reconciliation		
Figures in millions of euros	31/12/2023	31/12/2022
Bank borrowings and other marketable securities	1.127	1,267
Lease liabilities	199	193
Derivative financial instruments	0	0
Cash and cash equivalents	(111)	(75)
Non-current financial assets	(4)	(5)
Other current financial assets	(6)	(6)
Derivative financial instruments	(33)	(55)
Net debt (APM)	1,172	1,319
Net debt/EBITDA ratio (APM)	2.6x	2.6x
Lease liabilities	199	193
Net financial debt (APM)	973	1,126

Grifols. Management Report	Net financial debt under the Credit Agreement: Definition set out in the Grifols Credit Agreement. Amount by which Grifols' total financial obligations exceed its total financial assets, including cash and cash equivalents. Excludes the impact of IFRS 16, which specifies how an IFRS reporter will recognise, measure, present and disclose leases. Long-term financial obligations – Non-recurring lease liabilities (IFRS 16) + Short-term financial obligations – Recurring lease liabilities (IFRS 16) – Cash and cash equivalents.																																																								
IAG. Annual financial statements. Note 22.b Net debt (p. 261)	The breakdown of movements in net debt are shown below: <table><tr><th colspan="7">Movements in net debt were as follows:</th></tr><tr><th>€ million</th><th>Balance at 1 January 2023</th><th>Cash flows</th><th>Exchange movements</th><th>New leases and modifications</th><th>Other items</th><th>Balance at 31 December 2023</th></tr><tr><td>Bank, other loans, convertible bond and asset</td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>financial liabilities</td><td>10.365</td><td>(3.267)</td><td>(102)</td><td>–</td><td>119</td><td>7.115</td></tr><tr><td>Lease liabilities</td><td>9.619</td><td>(1.731)</td><td>(259)</td><td>1.315</td><td>23</td><td>8.967</td></tr><tr><td>Cash and cash equivalents</td><td>(9.196)</td><td>3.753</td><td>2</td><td>–</td><td>–</td><td>(5.441)</td></tr><tr><td>Current interest-bearing deposits</td><td>(403)</td><td>(985)</td><td>(8)</td><td>–</td><td>–</td><td>(1.396)</td></tr><tr><td></td><td>10.385</td><td>(2.230)</td><td>(367)</td><td>1.315</td><td>142</td><td>9.245</td></tr></table>	Movements in net debt were as follows:							€ million	Balance at 1 January 2023	Cash flows	Exchange movements	New leases and modifications	Other items	Balance at 31 December 2023	Bank, other loans, convertible bond and asset							financial liabilities	10.365	(3.267)	(102)	–	119	7.115	Lease liabilities	9.619	(1.731)	(259)	1.315	23	8.967	Cash and cash equivalents	(9.196)	3.753	2	–	–	(5.441)	Current interest-bearing deposits	(403)	(985)	(8)	–	–	(1.396)		10.385	(2.230)	(367)	1.315	142	9.245
Movements in net debt were as follows:																																																									
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Cash and cash equivalents	(9.196)	3.753	2	–	–	(5.441)																																																			
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	10.385	(2.230)	(367)	1.315	142	9.245																																																			
	In the section on Alternative Performance Measures, paragraph f): Net debt/EBITDA before exceptional items: Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and current interest-bearing deposits. Net debt excludes supply chain financing arrangements which are classified as trade payables (note 23). In the Glossary of terms, Net debt is defined as: Current and long-term interest bearing borrowings less cash and cash equivalents and current interest-bearing deposits																																																								
Iberdrola (definitions of APMs)	Gross Financial Debt: Bank borrowings, bonds or other negotiable securities + Leases + Derivative debt liabilities																																																								
Inditex. Note 2. Basis of presentation (p. 15)	Net financial position: defined as cash and cash equivalents and current financial investments less current and non-current financial debt, with explicit interest (without considering lease debt). Average net financial debt: defined as current and non current financial debt with explicit interest (without considering lease debt), less cash and cash equivalents and current financial investments, considered zero if the result is negative.																																																								
Indra. Management report	Bank borrowings and bonds do not include lease liabilities, which are recorded under Other financial liabilities <table><tr><th>CONSOLIDATED BALANCE SHEET (~M)</th><th>2023</th><th>2022</th></tr><tr><td>Cash and cash equivalents</td><td>596</td><td>933</td></tr><tr><td>Current bank borrowings and debentures</td><td>(224)</td><td>(275)</td></tr><tr><td>Noncurrent bank borrowings and debentures</td><td>(479)</td><td>(700)</td></tr><tr><td>Net borrowings</td><td>(107)</td><td>(43)</td></tr></table>	CONSOLIDATED BALANCE SHEET (~M)	2023	2022	Cash and cash equivalents	596	933	Current bank borrowings and debentures	(224)	(275)	Noncurrent bank borrowings and debentures	(479)	(700)	Net borrowings	(107)	(43)																																									
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Net borrowings	(107)	(43)																																																							
Meliá. Note 2.4 APM	Net Debt: This indicator is used to measure the financial leverage. It is calculated as the difference between debt with credit entities, securities issues and short- and long-term lease liabilities less Cash and cash equivalents. The reconciliation of this indicator with the different headings in the Consolidated Balance Sheet for 2023 and 2022 is shown below: <table><tr><th>(Thousand €)</th><th>31/12/2023</th><th>31/12/2022</th></tr><tr><td>Bonds and Other Negotiable Securities (Non-Current)</td><td>52,082</td><td>52,026</td></tr><tr><td>Bank Loans (Non-current)</td><td>958,390</td><td>1,131,463</td></tr><tr><td>Bonds and Other Negotiable Securities (Current)</td><td>24,585</td><td>24,042</td></tr><tr><td>Bank Loans (Current)</td><td>288,837</td><td>151,561</td></tr><tr><td>Lease liabilities</td><td>1,449,453</td><td>1,462,567</td></tr><tr><td>Cash and other cash equivalents</td><td>(160,229)</td><td>(148,680)</td></tr><tr><td>Net Debt</td><td>2,613,118</td><td>2,672,979</td></tr></table>	(Thousand €)	31/12/2023	31/12/2022	Bonds and Other Negotiable Securities (Non-Current)	52,082	52,026	Bank Loans (Non-current)	958,390	1,131,463	Bonds and Other Negotiable Securities (Current)	24,585	24,042	Bank Loans (Current)	288,837	151,561	Lease liabilities	1,449,453	1,462,567	Cash and other cash equivalents	(160,229)	(148,680)	Net Debt	2,613,118	2,672,979																																
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Naturgy. Management Report APM	Gross financial debt: Non-current financial liabilities (1) (Note 17) + Current financial liabilities (1) (Note 17) Net financial debt: Gross financial debt (5) – Cash and cash equivalents (1) – Derivative financial assets linked to financial liabilities (4) (Note 18) Note: Financial liabilities include lease liabilities.																																																								

Redeia. Note 13. Capital management. And Note 18.b

The Group monitors capital based on the leverage ratio, in line with industry practice. This ratio is calculated as Net financial debt divided by the sum of the Group's equity and Net financial debt. Net financial debt is calculated as follows:

Thousands of euros	2023	2022
Non-current borrowings ^(*)	5.164.911	5.491.124
Current borrowings ^(*)	506,251	681,007
Foreign exchange derivatives	(20,313)	(28,459)
Short-term money market investments ^(**)	—	(715,000)
Cash and cash equivalents	(675,417)	(794,824)
Net debt	4,975,432	4,633,848
Equity	5,529,057	4,894,276
Leverage ratio	47.4%	48.6%

^(*) Interest payable was excluded from both the 2023 and 2022 ratios.

^(**) Term deposits and other similar financial assets that are recognised under other current financial assets at amortised cost that do not meet the criteria for classification within cash and cash equivalents despite being identical in nature to a cash equivalent.

Note: Long- and short-term debt do not include lease liabilities

Repsol. APM

Net Debt	Net Debt	Reclassifications of joint ventures	IFRS-EU balance sheet
€ Million	Dec-2022	Dec-2022	Dec-2022
Non-current assets:			
Non-current financial assets (1) (2)	1.060	429	1.489
Current assets:			
Current financial assets (2)	4.410	81	4.491
Cash and cash equivalents	4.552	(423)	4.129
Non-current liabilities:			
Non-current financial liabilities (2)	(8.808)	458	(8.350)
Current liabilities:			
Current financial liabilities (2)	(3.310)	(4)	(3.314)
NET DEBT	(2.096)	541	(1.555)

⁽¹⁾ Amounts included under "Non-current financial assets" in the consolidated balance sheet.

⁽²⁾ Includes net non-current and current leases amounting to €-2,973 and €-633 million, respectively, according to the respectively, according to the IFRS-EU balance sheet.

⁽³⁾ The reconciliations in previous period are available at www.repsol.com.

Rovi. Management report

Debt with public administration, which is 0% interest rate debt, represented 13% of total debt as of December 2023 (14% as of December 2022).

In thousand euros	2023	2022
Bank borrowings	37.745	44.107
Debt with public administration	889	10.175
Financial liabilities for leases	18.792	17.856
Derivatives	—	28
TOTAL	65.427	72.166

Sacyr. Note 27.4 Other risks

The Group's leverage ratio at year-end 2023 and 2022 is as follows:

THOUSANDS OF EUROS	2023	2022
Gross debt	8,179,678	9,292,991
Cash	(1,680,368)	(1,728,093)
Current financial investments	(91,168)	(74,560)
Net financial debt	6,408,142	7,490,338
Equity	1,750,021	1,358,413
Equity + Net Debt	8,158,163	8,848,751
Gearing ratio	78.55 %	84.65 %
Net Debt / Equity	3.7	5.5

Note: Lease liabilities are not included in gross debt

Solaria. Note 10.1

Financial leverage ratios at December 31, 2023 and 2022 were as follows:

(Thousands of euros)	2023	2022
Bank borrowings, bonds and lease liabilities	1,060,051	881,551
Less: Cash and cash equivalents (Note 9.3)	(77,294)	(150,657)
Net debt	982,757	730,894
Total equity	524,118	344,728
Debt-to-equity ratio	188%	212%

Note: Net debt includes lease liabilities

Telefónica. Note 2. Basis for conclusions

Millions of euros	12/31/2023	12/31/2022
Non-current financial liabilities	33.36	35.059
Current financial liabilities	3.701	4.02
Gross financial debt	37.061	39.079
Cash and cash equivalents	(7.151)	(7.245)
Other current financial assets	(1.066)	(2.431)
Cash and other current financial assets included in "Non-current assets and	(13)	—
Positive mark-to-market value of long-term derivative instruments (Note 12)	-1.94	(2.668)
Other liabilities included in "Payables and other non-current liabilities"	1.75	1.431
Other liabilities included in "Payables and other current liabilities"	446	402
Other assets included in "Financial assets and other non-current assets"	(1.481)	(1.892)
Other assets included in "Receivables and other current assets"	(711)	(646)
Other current assets included in "Tax receivables" (Note 25)	—	(123)
Mark-to-market adjustment by cash flow hedging activities related to debt	659	1.102
Fair value of derivatives adjustment used for the economic hedging of gross	(205)	(322)
Net financial debt	27.349	26.687
Lease liabilities	8.92	8.645
Net financial debt plus leases	36.269	35.332
Gross commitments related to employee benefits and associated economic	6.159	5.291
Value of associated long-term assets	(114)	(104)
Tax benefits	(1.535)	(1.281)
Net commitments related to employee benefits	4.51	3.906
Net financial debt plus commitments	31.859	30.593
Net financial debt plus leases plus commitments (*)	40.779	39.238

(*) Includes assets and liabilities considered to be Net financial debt plus leases plus commitments related to employee benefits for companies classified as held for sale (see Note 30).

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