

Applying IFRS

Accounting for battery energy storage systems (BESS)

October 2026

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What you need to know

- Battery energy storage systems (BESSs) are scaling rapidly as electricity systems need more flexibility.
- Falling battery costs are making more storage use cases economically viable.
- Many BESS projects combine multiple revenue streams, making the business model important to the accounting.
- The application of IFRS accounting standards depends on whether the arrangement involves an asset, a lease, a service, a financial instrument or a separate entity.

Overview

Battery energy storage systems (BESSs) are becoming an increasingly important part of the electricity system. Rapid growth in renewable energy generation, continued electrification of transport, heating and industrial processes, and persistent constraints in electricity grids are increasing the need for flexible storage capacity. At the same time, battery costs have continued to fall, making a broader range of battery applications economically viable.

Battery storage can create value in several ways. It can provide mobile power, support backup power and business resilience, enable electricity to be stored and sold when prices are more favourable, improve the economics of renewable generation, reduce the impact of grid congestion and support the technical operation of electricity networks. Many battery projects combine several of these value streams, which make the business model and related contractual arrangements important in understanding the accounting.

The accounting for battery storage arrangements depends on the facts and circumstances. Relevant factors include whether an entity controls a physical battery asset, how the battery is used, whether the arrangement conveys the right to control the use of an identified asset, how the project is financed and whether the arrangement involves services, financial instruments, a separate legal entity or collaboration between parties.

Sections 1 and 2 explain why a BESS matters now, including market growth, use cases, cost reductions and the economic, financing and modelling considerations that support investment decisions. It then sets out, in section 3, the main BESS applications before moving, in section 4, to the application of IFRS accounting standards: section 5 considers arrangements involving separate legal entities, section 6 addresses a BESS owned and controlled directly by an entity, and section 7 analyses contractual arrangements such as leases, financial instruments, revenue contracts, service arrangements, collaboration arrangements and hybrid contracts. The final sections discuss disclosure considerations and summarise the key messages for entities applying IFRS accounting standards to BESS arrangements.

1. Why batteries matter now

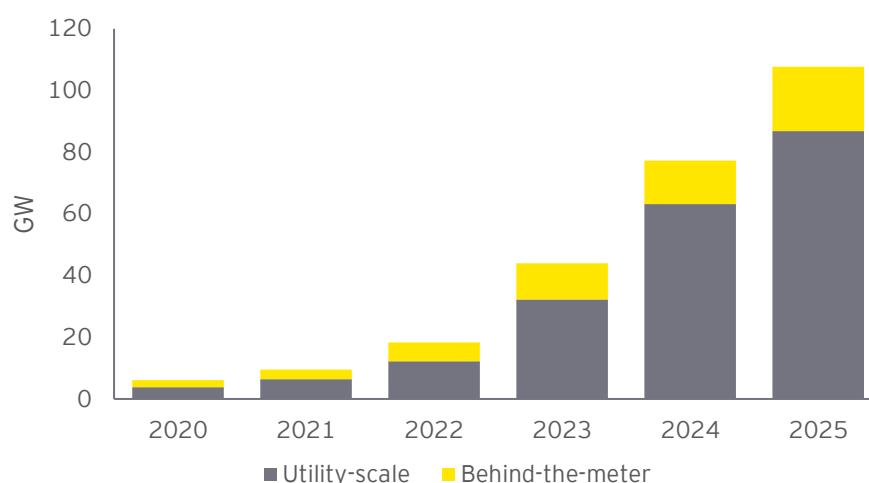
1.1 Battery energy storage systems are scaling up rapidly

Battery energy storage systems are moving from a niche technology to mainstream adoption in utility-scale applications. The rapid growth of these systems is driven by three dominant factors: increasing need for flexibility in grids with a high level of renewable energy, broader scope of use, and continued cost reductions.

Total installed battery capacity is now more than ten times greater than it was in 2021

The International Energy Agency (IEA) notes in its *Global Energy Review 2026*, that battery storage is the fastest growing power technology. New battery storage capacity added worldwide in 2025 grew at an annual rate of 40% to 108 gigawatts.¹ Total installed capacity is now more than ten times greater than it was in 2021. The chart below shows the rapid increase in annual capacity additions in the period from 2020 to 2025.²

Figure 1-1: Global battery storage capacity additions, 2020-2025



Source: International Energy Agency (2026), License: CC BY 4.0

The IEA staff notes that the additions in 2025 were even higher than the historical peak additions for gas-fired power plants of around 107 gigawatts in 2002.³ As can be seen in the chart, around four-fifths of the total of global battery capacity additions in 2025 relates to utility-scale batteries.⁴ The remainder relates to behind-the-meter (i.e., located on the customer's side of the utility meter) battery storage, which accelerated mainly in markets with high retail electricity prices and supportive regulatory and policy frameworks.⁵

¹ International Energy Agency (IEA) 2026, *Global Energy Review 2026*, page 35.

² International Energy Agency (IEA) 2026, *Global battery storage capacity additions, 2020-2025*, <https://www.iea.org/data-and-statistics/charts/global-battery-storage-capacity-additions-2020-2025>, License: CC BY 4.0

³ International Energy Agency, Brent Wanner, Max Schoenfisch, and Hans-Kristian Ringkjøb, *Battery storage is scaling up and taking on a larger system role*, 29 May 2026, https://www.iea.org/commentaries/battery-storage-is-scaling-up-and-taking-on-a-larger-system-role?utm_campaign=IEA+newsletters&utm_medium=Email&utm_source=SendGrid

⁴ The IEA generally uses “utility-scale” to refer to battery storage projects connected to the electricity grid and operated to provide system-level services, in contrast to “behind-the-meter” batteries located on the customer side of the utility meter.

⁵ International Energy Agency, Brent Wanner, Max Schoenfisch, and Hans-Kristian Ringkjøb, *Battery storage is scaling up and taking on a larger system role*, 29 May 2026,

The size of battery storage can be expressed in gigawatts (GW) that reflect the instantaneous capacity (i.e., power) that can be provided, or in gigawatt hours (GWh) that reflect the amount of power delivered over time (i.e., energy). For example, a 3GW BESS that can provide power for two hours at full capacity needs to have a 6GWh battery.

The IEA notes that although most BESS projects still cluster around two hours, an increasing number can be deployed for four hours or more, which reflects the value of flexibility in grid systems with a rising share of solar photovoltaic (PV) energy.⁶ This means that growth in BESS additions expressed in GWh is most likely to have grown faster than their growth in power expressed in GW.

1.2 Versatility and broadening use cases

Battery energy storage systems are highly versatile, as the IEA explains in *Electricity 2026 - Analysis and forecast to 2030*:⁷

Battery storage has become one of the most versatile tools for providing short-term power system flexibility. They can support the integration of wind and solar power by responding quickly to provide system balancing and grid support services, contribute to security of supply through capacity provision, and shift renewable generation to periods of high demand. As a result, they help defer or reduce the need for some network upgrades. Battery storage can also help greatly with the secure and cost-effective integration of new types of loads such as EVs, heat pumps and data centres, where the consumption can be highly correlated across location and time.

As explained in detail in sections 2 and 3 below, BESS create value by making electricity more flexible; they allow power to be stored, shifted in time, bought or sold at favourable prices, and used more effectively alongside renewable generation and constrained transmission networks. BESS also enable new electrified equipment, reduces inefficient fuel use, shortens project timelines by easing grid constraints, and increase self-consumption from small-scale solar or wind installations.

1.3 Learning curve effects leading to cost reductions

A learning curve represents the relationship between the amount of experience and the efficiency improvement over time. The more a task is performed, the less time or cost it typically takes to complete it. This is due to 'learning-by-doing', as individuals or organisations repeat a task, they discover better methods, reduce errors, and streamline processes. Wright's Law states that for every cumulative doubling of units produced, the cost per unit decreases by a consistent percentage.⁸

https://www.iea.org/commentaries/battery-storage-is-scaling-up-and-taking-on-a-larger-system-role?utm_campaign=IEA+newsletters&utm_medium=Email&utm_source=SendGrid

⁶ International Energy Agency (IEA) 2026, *Global Energy Review 2026*, page 36.

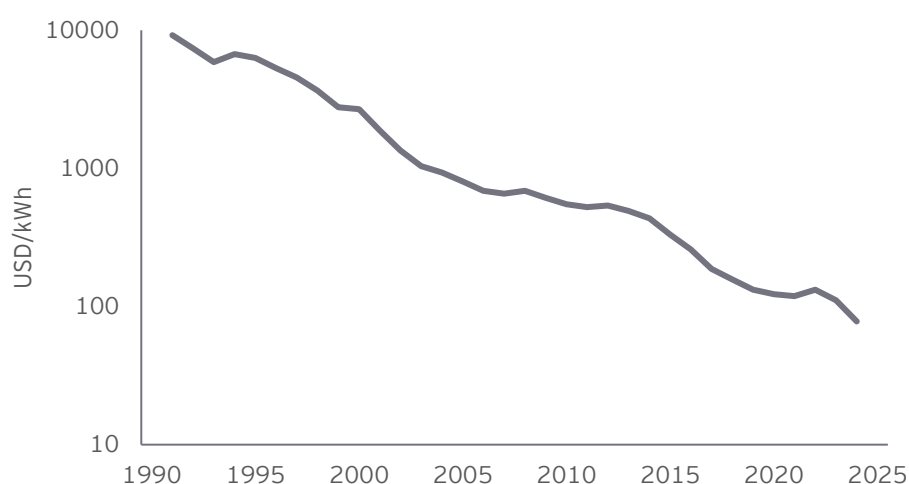
⁷ International Energy Agency (IEA) 2026, *Electricity 2026 - Analysis and forecast to 2030*, page 84.

⁸ Wright, T. P. (1936). *Factors Affecting the Cost of Airplanes*, Journal of the Aeronautical Sciences. February 1936, pages 122-128, <https://arc.aiaa.org/doi/10.2514/8.155>, retrieved 31 August 2026.

Learning curve effects are particularly strong in technologies with a low degree of design complexity and little need for customisation, such as battery cells.⁹ According to analysis by Our World in Data,¹⁰ the price of lithium-ion battery cells has dropped by approximately 19% for every doubling of global cumulative installed capacity.

Over time, from 1991 to 2024, the price of lithium-ion battery cells has come down by two orders of magnitude from close to \$10,000/kilowatt-hour (kWh) to less than \$100/kWh, as shown in the chart.¹¹

Figure 1-2: Price of lithium-ion battery cells



Source: Our World in Data (2026)

The chart above does not reflect the improvements in the quality of battery cells, such as reduced performance degradation and roundtrip efficiency, which contribute to a further decrease in the cost of operating batteries.

There are no indications that the learning curve effects will suddenly be exhausted in the coming years

While prices have not come down in every single year, the overall downward trend is stable. There will come a point at which physical constraints and the cost of source materials will make any further progress impossible. However, that point has not been reached yet, and there are no indications that the learning curve effects will suddenly be exhausted in the coming years.

A potential battery project that would have been uneconomical at last year's battery prices, might become attractive at next year's prices and entities may want to consider timing their BESS investments based on the anticipated trends reflected in historical price developments.

It is worth noting that while for mobile applications the energy density (i.e., weight) of a battery is very important, in stationary applications this is far less relevant. This opens up opportunities for lower-cost lower-density battery

⁹ Abhishek Malhotra and Tobias S. Schmidt, *Accelerating Low-Carbon Innovation*, 2020.

¹⁰ Hannah Ritchie and Pablo Rosado, Our World in Data, *Battery costs have declined by 99% in the last three decades, making electrified transport a reality*, 2026, <https://ourworldindata.org/battery-price-decline>

¹¹ Hannah Ritchie and Pablo Rosado, Our World in Data, *Battery costs have declined by 99% in the last three decades, making electrified transport a reality*, 2026, <https://ourworldindata.org/battery-price-decline>

chemistries to be applied (e.g., sodium or iron-air batteries) or as mentioned in Practical example 1 below.



Practical example 1 – RWE Aktiengesellschaft (2025)

2 Combined management report [extract]

2.11 Group Sustainability Statement [extract]

E5 Resource use and circular economy [extract]

3. Actions [extract]

New battery concept with improved characteristics

Our US renewables business initiated a pilot project in 2024 to test the performance characteristics of a high-efficiency metal-hydrogen battery. The company EnerVenue is pioneering the commercial deployment of high-efficiency metal-hydrogen batteries with a lifespan of more than 30,000-cycles and with better recyclability than lithium-ion batteries. Testing for use in standalone battery energy storage systems (BESS) was continued in 2025 and should be completed in the first quarter of 2026.



How we see it

BESS is scaling rapidly, led by utility-scale projects and supported by growing behind-the-meter deployment. Its versatility supports renewable integration, system flexibility, security of supply and new electricity loads such as EVs, heat pumps and data centres. Falling battery costs, driven by learning curve effects, are expected to broaden the economic use cases, especially for stationary storage.

2. Economic benefits, financing, and modelling

2.1 Economic benefits

It is obvious that batteries store energy, but the economic benefits of BESS can take different forms:

- *New types of equipment* - Battery technology makes it possible to develop new types of equipment such as cordless power tools and electric vehicles. Electrification can also reduce energy use, particularly where it replaces small internal combustion engines, which are often inefficient.
- *Electricity generated is no longer perishable* - Historically, almost all power generated had to be used instantaneously. BESS partly decouples electricity generation from electricity consumption, allowing electricity to be generated when it is cheap and used when it is needed.
- *Buying low and selling high* - Storage allows consumers to buy electricity when prices are low, generators to sell when prices are high, and traders to capture value from price differences over time.
- *Improving utilisation of existing assets* - BESS can act as a buffer for renewable generation and transmission networks. This can reduce curtailment when supply exceeds immediate demand and helps avoid constraints caused by limited transmission capacity.

Battery projects can generate revenues from multiple value streams

- *Shortening project timelines* - Projects that depend on new transmission capacity may face planning delays. BESS can increase project value by reducing the need for additional transmission capacity and the resulting delays.
- *Increasing own use* - When added to a small-scale solar or wind installation behind the meter, battery storage allows the user to use more of the electricity generated on site.

It is important to keep in mind that many battery projects can generate revenues from multiple value streams (e.g., price arbitrage or own use). However, at the same time, these benefits should be considered alongside important limitations and risks. The roundtrip efficiency of BESS is less than 100%, their performance will degrade over time, and the rapid rate of technological development may accelerate obsolescence and reduce the residual values. As more battery capacity is installed, competition may narrow electricity price spreads and reduce revenues from arbitrage. The future economics of a project depend on uncertain external factors, such as electricity prices and volatility, renewable generation, grid conditions, competing investment and regulatory developments.

2.2 Financing and ownership structure

Part of the cost of a BESS is the cost of financing the investment, which depends on how an entity structures the battery arrangement, for example:

- *Direct ownership* is beneficial for entities with a strong credit rating, access to capital markets or bank loans, subject to no or minimal restriction on their financial ratios, and that have income from which they can deduct the depreciation (see section 6 below).
- *Leasing* is attractive for entities that lack a credit rating or have limited access to capital markets and bank loans. The lessee can benefit, in part, from the spread between its credit rating and that of the lessor, which manages its credit risk by retaining title to the BESS during the lease term (see sections 7.2 and 7.3 below).
- *Other contract-based arrangements* - If direct ownership or leasing are not suitable, then it may be possible to obtain access to a BESS by structuring the arrangement as a services contract, financial instrument, or collaboration arrangement. This may be more expensive per kWh and does not provide long-term pricing certainty. However, it does offer access to the benefits of a BESS and may be more flexible if the entity does not need the BESS for its entire economic life (see sections 7.4 and 7.5 below).
- *Separate legal entity* - In some cases, setting up a separate legal entity will provide economic and financial benefits when there are several parties involved in the construction, financing, and operations of a BESS (see section 5 below).

Many of the accounting questions regarding battery storage assets arise not from the nature of the asset itself, but from how the asset is used, how the asset is financed, and the contractual arrangements to which the asset is subject

Many of the accounting questions regarding battery storage assets arise not from the nature of the asset itself, but from how the asset is used, how the asset is financed, and the contractual arrangements the asset is subject to. However, some of the more complex arrangements may only be commercially feasible in the context of very large utility-scale BESS that serves many end users and would not be relevant for smaller behind-the-meter BESS with a single user.

2.3 Operational and financial modelling

The business case for investing in some battery projects can sometimes be simple, either because the entity has experience from a similar project or because the economic benefits are overwhelming. However, in other cases, sophisticated modelling that involves the following aspects is needed:

- *Operational dispatch model* - To determine when a battery should charge and discharge, an entity would need to develop a model that considers the physical characteristics of the battery (e.g., power, energy capacity, degradation, and roundtrip efficiency), demand forecasts, price forecasts, and grid constraints.
- *Revenue stack model* - If the BESS can generate revenue or income from multiple value streams simultaneously (e.g., price arbitrage or own use) then the entity needs to model operational revenue by deciding which revenue or income source it should prioritise in which circumstances.
- *Long-term project finance model* - Once the operational revenues have been modelled, the entity needs to develop a discounted cash flow model that considers the capital expenditure (CAPEX), operational expenditure (OPEX), and the financing costs of the project.
- *Analysis of risk scenarios* - The economic benefits from a BESS will depend on external factors, such as roll-out of renewable energy sources, variations in the amount of sun and wind each year, battery investments by other parties, fossil fuel energy prices that affect electricity price volatility, and other electricity market developments. An entity may want to model various scenarios to understand the risks and the factors responsible for it.
- *Investment decision* - The above modelling can be used to determine the optimal size of a BESS in terms of power (i.e., MW) and energy (i.e., MWh), and whether there is value in phasing the investment in it (e.g., add capacity later when prices have come down).

Finally, the models above are not just relevant to investment decisions. They also provide the analytical foundation for impairment testing and measuring fair value under IFRS accounting standards (see sections 6.1.3 and 7.3.2 below).



How we see it

Robust investment decision modelling based on an operational dispatch model, a revenue stack model, and a project finance model, can provide valuable input in assessing risks and determining the optimal size and structure of the project.

3. Battery use cases

This section provides an overview of the principal use cases for batteries across consumer, commercial and grid applications. It explains how batteries create value by enabling mobility, improving resilience, shifting electricity across time, supporting renewable generation, easing grid constraints and contributing to the reliable operation of power systems.

Batteries enable the mobile use of devices, allow for convenient form factors and are more power efficient than internal combustion engines

3.1 Mobile power

Batteries have long been used in portable electronic devices, flashlights, and as auxiliary power sources in vehicles with internal combustion engines. The use of batteries addresses several issues: it is impractical and too costly for every device to generate its own power; a battery provides the operational convenience of not needing extension cords or nearby power outlets; and it can temporarily power a vehicle when the engine is not running.

As the performance of batteries has improved in terms of power density and longevity, the number of use cases has increased as well. For example, unlike forty years ago, it is now feasible to power portable computers, power tools, gardening tools, and electrical vehicles, using batteries alone.

Batteries enable the mobile use of devices, allow for practical new products (e.g., portable electronics, cordless power tools and electric bicycles), and are more power efficient than internal combustion engines (e.g., in cars).

Some batteries are an integral part of a device, while other batteries are modular and can be swapped by the user. In power tools, this has the benefit that drained batteries can be charged without interrupting the work and that it is not necessary to buy batteries for every tool. In electric bicycles, a removable battery allows for more convenient recharging and may prevent theft.

Battery sharing remains uncommon, but it exists in some micromobility applications. For example, swapping a drained battery of an electrical scooter for a fully charged battery may provide significant convenience, as there is no need to wait for charging.

3.2 Backup power and business reliability

An uninterrupted power supply is vital for certain medical applications where it helps in ensuring patient safety and uninterrupted hospital operations. In many industries, backup power is necessary to safely shutdown operations, avoid loss of data, and to prevent loss of goods if refrigeration cannot be kept running.

Even in regions with extremely reliable power grids, backup power is still necessary to avoid small chances of a severe or dangerous outcome. In regions with less reliable power grids, batteries can help avoid the frequent interruption of the power supply that leads to important opportunity costs from lost business and inefficiencies in production.

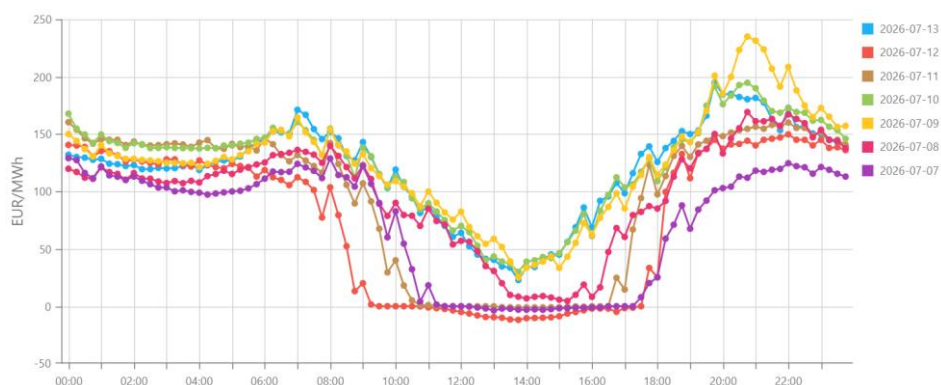
Backup power sources, such as gas or diesel generators, cannot be used in every location, require regular maintenance, and are relatively costly to operate. Now that batteries are cheaper, they have become attractive as backup power in underserved use cases where generators were uneconomical and serve a useful role in combination with generators by managing peak loads and improving utilisation.

3.3 Power trading and storage

In electricity grids that have little to no storage capacity, all electricity generated must be used instantaneously. That means that the market for power generated at 8:00 in the morning is different from the market for power generated at 15:00 in the afternoon. Consequently, wholesale electricity prices

vary considerably over the course of the day. For example, in the week from 7 to 13 July 2026 in Germany, high solar power production in the afternoon caused prices to go down, whereas high demand shortly after sunset caused much higher prices. Figure 3-1 below shows the movement of the wholesale electricity price for each day throughout the week.¹²

Figure 3-1: Wholesale electricity price in Germany (7 to 13 July 2026)



Source: Nordpool (July 2026)

With cheaper storage, it becomes feasible for a trader to arbitrage the price differences that exist during the day. At the level of the electricity grid, this has several consequences:

With cheaper storage, it becomes feasible for a trader to arbitrage the price differences that exist during the day

- Power generated does not have to be consumed instantaneously but can be sold when it is most valuable. The effect of this is comparable to the introduction of refrigerated storage in physical supply chains (i.e., electricity is no longer the world's most perishable commodity).
- BESS competes with peaker plants to provide power in the early evening, and is well-suited to quickly ramp up power supply to the grid or react to prices in the imbalance market.
- The economics of the trading model will gradually change as more battery capacity is connected to the grid and the daily arbitrage opportunities are reduced. The amount of revenue to be gained from the weekly and seasonal price arbitrage is much lower as there are many fewer such charging cycles available over the course of a year.

The roundtrip efficiency of BESS depends on the underlying technology used, but is generally around 85-90% at the system level. Therefore, trading is only profitable if the price difference is sufficiently large to cover the loss in energy that occurs in the charging/discharging cycle.

While it is possible for individual battery owners to develop and execute their own trading strategies, it is also possible that a third party provides automated trading software or directly manages the battery in exchange for a fixed or variable service fee.

¹² German electricity prices from 7-13 July 2026, as per Nordpool, retrieved 23 July 2026, <https://data.nordpoolgroup.com/auction/day-ahead/prices?deliveryDate=2026-07-13¤cy=EUR&aggregation=PriceTrend&deliveryArea=GER>

3.4 Co-location with power generation

The IEA noted in May 2026 that, “Around 24 GW of utility-scale battery storage additions in 2025 were co-located directly with renewables, on par with the previous year. This meant the share of capacity co-located with renewables fell just below 30%, as market reforms in China in early 2025 removed broad co-location mandates.”¹³ So, clearly, co-location of batteries with renewable electricity generation is an important use case of batteries.

Solar (wind) power generation is known for its volatile production pattern, which is highly correlated with production by similar solar (wind) facilities nearby. This raises several challenges that can be mitigated using a BESS:

- *Highly correlated generation* - The highly correlated nature of renewable energy generation has two effects:
 - High levels of generation reduce the hourly market price and, hence, the value of the electricity generated, and
 - Total power provided to the grid cannot exceed demand, which may result in curtailment of production.

Adding battery storage to renewable plants addresses both problems, power generated does not have to be sold immediately (i.e., this improves its value)¹⁴ and curtailment of production is less likely. It is worthwhile noting for this particular use that even a BESS with a low roundtrip efficiency (i.e., the percentage of energy that a battery returns is relatively low compared to the energy used to charge it) might be economically viable, as the electricity lost had a very low market value or its production would have been curtailed.

- *Size of grid connection* - A grid connection based on the peak power generation capacity is costly and results in a connection that is under-utilised most of the time. A grid connection equal to, say, 30% of the peak capacity is much cheaper, but results in curtailment of production given the limits of the grid connection. Adding a BESS makes it possible to reduce the size of the grid connection for new projects (or increase the peak power generation capacity of existing sites) while largely eliminating curtailment of production caused by the relative size of the grid connection.
- *Secondary use for trading* - When a solar or wind farm is not generating power (e.g., when there is little sunshine), a co-located battery would still be available to trade in the power markets.
- *Firming of generation* - A BESS will not change a solar (wind) farm into a fully dispatchable source of power (one that can be switched on at will), but it could make it more stable and predictable (i.e., less prone to creating imbalances). This reduces the risk of imbalance penalty payments and the need for backup stand-ready capacity that makes the solar wind farm more valuable at a grid level.

¹³ International Energy Agency, Brent Wanner, Max Schoenfisch, and Hans-Kristian Ringkjøb, *Battery storage is scaling up and taking on a larger system role*, 29 May 2026, https://www.iea.org/commentaries/battery-storage-is-scaling-up-and-taking-on-a-larger-system-role?utm_campaign=IEA+newsletters&utm_medium=Email&utm_source=SendGrid

¹⁴ International Energy Agency, *Electricity 2026 - Analysis and forecast to 2030*, page 84.

- **Own use** – Adding battery storage to a small-scale solar (wind) installation behind the meter, allows the owner to increase their own use of power generated and avoid power grid charges on their own use. At a grid level, an increase in own use reduces the average distance that a kWh of electricity needs to travel between generation and usage, which reduces the need for transmission and disintermediates the power utility.

The IEA also notes in its May 2026 report how BESS combines multiple revenue streams:¹⁵

... Batteries are therefore increasingly being used to shift larger volumes of power across the day, while still providing fast-response balancing services to electricity systems as needed. A growing number of battery projects now combine multiple revenue streams and system services, which is reflected in how projects are designed.

Practical examples 2 and 3 below show how BESS is used in combination with self-generated electricity.



Practical example 2 – Athens International Airport S.A. (2025)

4. Board of Directors' Report [extract]

H. Sustainability Statement [extract]

H.1 General Information [extract]

Key Products and Services Relating to Sustainability [extract]

The completion of the ROUTE 2025 projects constitutes a key element of AIA's climate action plan. During the reporting period, AIA electrified a large portion of its vehicle fleet, focusing on the vehicles responsible for the most emissions, while also putting in place the necessary charging infrastructure. In addition, high temperature heat pumps were installed in the Main and Satellite Terminal Buildings as well as other buildings operated by AIA. Finally, AIA commissioned a 35.5MWp photovoltaic (PV) system and an 82MWh Battery Energy Storage System (BESS). These projects will enable AIA to achieve Net Zero for its Scope 1 and 2 greenhouse gas emissions, while also supporting the decarbonisation pathway of airport operations in line with AIA's long-term climate objectives.



Practical example 3 – Rio Tinto plc (2025)

Production, Ore Reserves, Mineral Resources and operations [extract]

Mines and production facilities [extract]

Property: QIT Madagascar Minerals (QMM) [extract]

Power source

QMM utilises on-site heavy fuel oil (HFO) generators with a total capacity of 20 MW to provide base load power. To reduce reliance on HFO, the system is integrated with solar photovoltaic, wind turbine generators, and battery energy storage systems (BESS).

The renewable energy plant is operated by an independent power producer under a power purchase agreement (PPA), which targets a 60% contribution from renewable sources by 2026.

¹⁵ International Energy Agency, Brent Wanner, Max Schoenfisch, and Hans-Kristian Ringkjøb, *Battery storage is scaling up and taking on a larger system role*, 29 May 2026, https://www.iea.org/commentaries/battery-storage-is-scaling-up-and-taking-on-a-larger-system-role?utm_campaign=IEA+newsletters&utm_medium=Email&utm_source=SendGrid



How we see it

The business case for batteries co-located with power generation has five primary drivers, as listed above. While individual drivers may not be sufficient to justify the investment in co-located batteries, the combined effect could be quite powerful.

3.5 Co-location with users of electricity

While total electricity demand in many developed countries has been largely flat for many years, this overall picture hides a much more dynamic underlying reality. Energy consumption is declining in some sectors (e.g., energy intensive industries moving to countries with cheaper power), while ongoing electrification of heating, mobility, and industrial processes, is leading to greater demand for electricity. This, together with the build-out of renewable energy generation in new locations, has resulted in a situation where the grid infrastructure that matched the geography of past supply and demand has become a poor fit for the new supply and demand patterns. Reconfiguring the grid to adapt to what will be needed in future will take time and has given rise to grid congestion in many networks.

Users that are planning to increase their power usage with electrification of their heating, mobility and industrial processes need to address several challenges:

- *Size of grid connection* - Without battery storage, a customer's grid connection needs to be sized based on their peak demand, which will leave the connection significantly underutilised for most of the day. Battery storage may be able to 'shave' the peak capacity required, such that a cheaper and lower capacity grid connection may suffice.
- *Waiting times and grid congestion* - An entity that is electrifying its operations may not need to upgrade its grid connection in the near term if it is able to improve the utilisation of its existing grid connection by using BESS as a buffer. This means investments in electrification may not need to be deferred while the entity waits for grid congestion to be resolved.

As the IEA notes "Comparatively short construction and development timelines are further supporting the rapid deployment of utility-scale batteries in particular: in many markets, projects typically take around two years to develop and commission, giving them an important advantage in systems that seek flexible capacity quickly."¹⁶

- *Reduced cost of electricity* - As illustrated in section 3.3 above, electricity usage and prices follow a distinct daily pattern, with the highest prices often occurring in the early evening after sunset. A logistics company that needs to charge a fleet of electric delivery vehicles between 19:00 and 7:00 the next day, would have to pay some of the highest rates for the day if it decided to charge its vehicles in the early evening. A BESS that is recharged earlier in the day when prices are lower, could help reduce the average price of electricity.

A BESS that is recharged earlier in the day when prices are lower, could help reduce the average price of electricity

¹⁶ International Energy Agency, Brent Wanner, Max Schoenfisch, and Hans-Kristian Ringkjøb, *Battery storage is scaling up and taking on a larger system role*, 29 May 2026, https://www.iea.org/commentaries/battery-storage-is-scaling-up-and-taking-on-a-larger-system-role?utm_campaign=IEA+newsletters&utm_medium=Email&utm_source=SendGrid

- *Secondary use for trading* - When the business is closed (during the weekend or on holidays), a co-located battery would still be available to trade in the power markets.

Practical example 4 below is an example of an entity that uses BESS to mitigate the impact of grid congestion on its business.



Practical example 4 – Koninklijke KPN N.V. (2025)

Report by the Board of Management [extract]

Our performance – Network, Operations & IT [extract]

Challenges

In 2025 we truly experienced the consequences of Dutch energy grid congestion, as we were unable to obtain all the energy connections and capacity we needed. To address this, we strengthened our governance on energy grid congestion. We improved our analysis and forecasting of risks, enabling us to anticipate potential bottlenecks more effectively. We also intensified dialogue with grid operators and other stakeholders to explore cooperative solutions. In addition, we implemented technical measures such as battery energy storage systems (BESS) and emergency power generators.

Thanks to these initiatives, we managed to limit the impact of grid congestion on our services.



How we see it

The business case for batteries co-located with users of electricity relies on a mix of drivers. Even if the investment is uneconomic at the current price of battery storage, the persistence of learning curve effects on battery prices may change this in the future.

Early battery projects were concentrated in lucrative but relatively shallow ancillary service markets, which involve the use of batteries to help balance and stabilise electricity grids

3.6 Operation of the grid

Maintaining the quality of service of a power grid is a complex technical and organisational process. Grid operators are not only responsible for delivering electricity, but they also need to manage voltage and frequency, balance local supply and demand, ensure resilience, and be able to quickly restart (parts) of the grid after an outage. Battery systems can play a role in many of these more technical aspects of grid management. As the IEA noted in May 2026, while ancillary services were a main driver of early battery adoption, their relative importance has since diminished:¹⁷

Early battery projects were concentrated in lucrative but relatively shallow ancillary service markets, which involve the use of batteries to help balance and stabilise electricity grids. But energy shifting - or the ability to store large volumes of energy that can be deployed at a later time - has since become the dominant application: its share of new projects increased from around 40% in 2015 to more than 90% in 2025. Over the same period, the share of projects

¹⁷ International Energy Agency, Brent Wanner, Max Schoenfisch, and Hans-Kristian Ringkjøb, *Battery storage is scaling up and taking on a larger system role*, 29 May 2026, https://www.iea.org/commentaries/battery-storage-is-scaling-up-and-taking-on-a-larger-system-role?utm_campaign=IEA+newsletters&utm_medium=Email&utm_source=SendGrid

primarily targeting ancillary services fell from around 45% to about 7%, even as the absolute volume of such projects continued to grow. ...

There are two aspects of operating the grid where batteries can play a particularly important role:

- *Peaker plants* - To ensure that sufficient power is available at any time of the day, (gas) peaker plants are on standby to provide additional power at short notice. In renewables heavy grids (e.g., California), it can be observed that battery storage is starting to displace the role of peaker plants during the early evening, as the IEA observes that:¹⁸

... By charging during periods of surplus generation and discharging during periods when demand increases rapidly, batteries are progressively taking on a greater share of short-term ramping and balancing needs.

Some of the clearest examples of this can be found in the United States. In California, solar capacity has grown to over 55 GW. This is greater than the state's peak load and means that on sunny days, its net load is close to zero - and at times even below it. At the same time, California's battery capacity has grown from less than 1 GW in 2019 to over 17 GW today. As a result, batteries have been able to discharge more power than ever before - at one point covering more than 40% of the state's power load on the evening of 29 March 2026, for example. At the same time, batteries are increasingly helping to balance power systems: in the last five years, battery storage has gone from contributing less than 1% of hour-to-hour ramping needs to above 60% in the first quarter of 2026. A similar pattern has emerged in recent years in Texas; in April, batteries contributed to more than 40% of ramping in the ERCOT market.

- *Utilisation of existing connections* - Increasing the capacity of the grid by building new connections is a relatively slow process given the often-lengthy planning and permitting phase and the many competing demands for additional infrastructure. In addition, electricity grids are very expensive compared to other methods of transporting energy (e.g., in the form of oil or gas). Batteries that are co-located with major power connections can be used to mitigate grid congestion by offering "peak shaving" and improved utilisation of the grid during hours with lower power demand. As a result, the same infrastructure can be used to transport more power over the course of the day.

¹⁸ International Energy Agency, Brent Wanner, Max Schoenfisch, and Hans-Kristian Ringkjøb, *Battery storage is scaling up and taking on a larger system role*, 29 May 2026, https://www.iea.org/commentaries/battery-storage-is-scaling-up-and-taking-on-a-larger-system-role?utm_campaign=IEA+newsletters&utm_medium=Email&utm_source=SendGrid

Battery storage arrangements can give rise to a wide range of accounting outcomes under IFRS accounting standards

4. IFRS accounting standards

Battery storage arrangements can give rise to a wide range of accounting outcomes under IFRS accounting standards. The appropriate accounting does not depend only on the existence of a physical battery asset, but also on how the asset is used, who controls it, how the arrangement is financed and what rights and obligations arise from the relevant contracts.

This section provides considerations for analysing battery storage arrangements under IFRS accounting standards. It first considers cases in which an entity controls a battery asset directly, including the IFRS accounting standards for assets such as: property, plant and equipment; software and intangible assets; and inventory. It then considers contractual arrangements between entities, including leases, financial instruments, revenue contracts, service arrangements and hybrid contracts. Finally, it discusses arrangements involving separate legal entities and collaboration arrangements.

The analysis is intended to help entities identify the relevant accounting model before applying the detailed requirements of the applicable IFRS accounting standards. In practice, this assessment often requires judgement, because many battery projects combine physical assets, software, trading activities, services, variable payments, shared infrastructure and multiple revenue streams. Short examples have been included that provide a high-level description of the types of battery use cases to which the IFRS accounting standards apply and, where available, practical examples from the annual reporting of entities have been added to show how the issues affect real life businesses.

In this publication, the various IFRS accounting models are discussed based on the following considerations:

- *Does the arrangement involve a separate legal entity that owns the battery asset?*

If a separate legal entity is involved then, depending on the governance and control arrangements, the investor will account for a controlled subsidiary, joint arrangement, associate, or investment in equity instruments. See section 5 for a further discussion.

- *Is there a battery asset owned and controlled by the entity?*

If the battery asset is owned and controlled by the entity, then, depending on its use and purpose, the entity will account for an item of property, plant and equipment, an intangible asset, or inventory. See section 6 for further discussion.

- *Is there a contract between entities?*

In some cases, the BESS is owned by one entity, but another entity has the contractual right to control the use of it by: obtaining substantially all of the economic benefits from and the right to direct the use of the asset (e.g., a lease), receiving cash flows generated from the use of the asset (e.g., a financial instrument), receiving electricity from or services related to the BESS (e.g. sale of goods and services), or collaborating with the owner in benefiting from the BESS. See section 7 for further discussion.

This publication is intended to help readers identify the relevant IFRS accounting model for BESS arrangements and understand the main judgements involved, but it does not reproduce the full requirements or detailed application guidance for each standard. References to [International GAAP® 2026](#), therefore, direct readers to the broader, authoritative EY guidance on the applicable IFRS accounting requirements, including consolidation, joint arrangements, property, plant and equipment, leases, financial instruments, revenue recognition, impairment and fair value measurement.

5. BESS owned by a separate legal entity

Some battery arrangements involve the establishment of a separate legal entity that owns, finances, and/or operates the BESS. The reasons for establishing a separate legal entity typically include the following:

- *Governance* - If the BESS is intended to provide economic benefits to different parties through shared use or by having participants with different roles (e.g., developer, customer, or financier) then a separate legal entity makes it possible to tailor the governance structure to the needs of the parties. For example, the separate legal entity could provide joint control, supermajority voting, protective rights and reserved matters, or differing control and voting arrangements depending on the stage of the project.
- *Cost of financing* - It is possible to structure the funding of a separate legal entity conservatively such that it can borrow funds more cheaply than any of the participating parties. Creditworthiness can also be enhanced as the BESS can serve as collateral for the borrowings without the risk of any competing claims.
- *Sharing of the returns* - The entity can issue preferred instruments (e.g., bonds or shares) that allow for a pre-defined waterfall structure. That is, returns are first paid on the most senior instruments and then successively paid on more junior instruments.
- *Risk* - It would allow parties to be isolated from certain risks related to the ownership, financing, and operation of the BESS.
- *Tax* - Certain tax benefits and government grants may only be available if the BESS is owned by an entity that meets specific requirements or exclusively engages in certain activities.

Depending on the governance and control of a separate legal entity, the investor will account for a controlled subsidiary, joint arrangement, associate, or an investment in equity instruments (see sections 5.1 to 5.4 below). The separate legal entity that owns and controls the BESS would apply the guidance described in section 6 below to its investment in the physical asset.

5.1 Controlled subsidiaries

IFRS 10 *Consolidated Financial Statements* requires entities (including structured entities)¹⁹ that are controlled by a parent to be consolidated into the financial statements prepared by that parent, except for certain subsidiaries of investment entities that are to be measured at fair value through profit or loss.

¹⁹ A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

IFRS 10 establishes when an investor is required to consolidate an investee and provides a single control model for determining whether control exists. An investor controls an investee when it has all three of the following:

- Power over the investee (the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power to affect those returns

When control exists, the investor is a parent and must prepare consolidated financial statements, combining the assets, liabilities, income, expenses and cash flows of the parent and its subsidiaries as though they were a single economic entity.

While IFRS accounting standards do not prescribe specific disclosures regarding BESS, IFRS 12 *Disclosure of Interests in Other Entities* requires disclosure of information that enables users to understand the composition of the group.

For a detailed discussion of the requirements of IFRS 10, refer to [International GAAP® 2026](#), Chapters 7 and 8.

5.2 Joint arrangements

A joint arrangement is an arrangement that has the following characteristics:

a) the parties are bound by a contractual arrangement; and b) the contractual arrangement gives two or more of those parties joint control of the arrangement. Joint control is defined by IFRS 11 *Joint Arrangements* as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Sometimes an arrangement provides all parties with a voting right, but in the case of a deadlock, or disagreement, one party has the deciding vote (i.e., the final decision or override powers). If any single party could direct the relevant activities unilaterally, there would not be joint control.

IFRS 11 distinguishes between two types of joint arrangements:

- *Joint venture* - This is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for under the equity method as defined in IAS 28 *Investments in Associates and Joint Ventures*.
- *Joint operation* - This is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party in a joint operation accounts under IFRS 11, for their share in the assets, liabilities, revenues, and expenses of the joint operation.

For a detailed discussion of the requirements of IAS 28 and IFRS 11, refer to [International GAAP® 2026](#), Chapters 12 and 13, respectively.

Practical example 5 below, provides an example of the type of arrangements that are common in practice when entities engage in a joint project.



Practical example 5 – Public Power Corporation S.A. (2025)

Financial Report [extract]

Detailed information of the statement of financial position [extract]

24. Subsequent events [extract]

New acquisitions of the RES portfolio 2026

On March 4, 2026, a Joint Venture Agreement was signed between the Group and Metlen Energy & Metals for the joint development of Battery Energy Storage System (BESS) projects in three countries — Italy, Romania and Bulgaria — with an installed capacity of 1 GW and the potential to expand up to 1.5 GW.

The new joint venture, in which the Group and Metlen will each hold a 50% stake, will proceed with the implementation of the projects across the three countries, with construction targeted for completion within the twelve month period.

5.3 Associates

An investor has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the investee, but does not have control or joint control of those policies.

Under IAS 28, a holding of 20% or more of the voting power of the investee (held directly or indirectly, through subsidiaries) is presumed to give rise to significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, a holding of less than 20% of the voting power is presumed not to give rise to significant influence, unless it can be clearly demonstrated that there is, in fact, significant influence. The existence of a substantial or majority interest of another investor in the investee does not necessarily preclude the investor from having significant influence.

Associates are accounted for under the equity method, which IAS 28 defines as a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

For a detailed discussion of the requirements of IAS 28, refer to [International GAAP® 2026](#), Chapter 12.

5.4 Investments in equity instruments

If the investor does not have control, joint control, or significant influence, then in terms of IFRS 9 *Financial Instruments*, it would normally account for its investment in equity instruments at fair value through profit or loss (FVPL). However, on initial recognition, the investor may make an irrevocable election (on an instrument-by-instrument basis) to designate the equity instrument at fair value through other comprehensive income (FVOCI). In which case, the gains and losses are recognised in other comprehensive income, while dividends are recognised in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Unlike for FVOCI debt instruments, gains or losses recognised in OCI for equity instruments are never reclassified from equity to profit or loss. Consequently, there is no need to review such investments for impairment.

For a detailed discussion of the requirements of IFRS 9, refer to [International GAAP® 2026](#), Chapters 44 to 46.

6. BESS owned and controlled by the entity

If an entity owns and controls a BESS, then there are three different accounting models that could apply under IFRS accounting standards:

- *Property, plant and equipment (PPE)* - The owner of a battery asset applies IAS 16 *Property, Plant and Equipment* to batteries that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period (see section 6.1 below).
- *Intangible assets* - BESS are usually automated assets that are software controlled. Depending on its nature and function, the software is either a separate intangible asset or part of the item of property, plant and equipment (see section 6.2 below).
- *Inventory* - IAS 2 *Inventories* applies to batteries that are (a) held for sale in the ordinary course of business, (b) in the process of production for such sale, or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services (see section 6.3 below).

6.1 Property, plant and equipment

The owner of a battery asset applies IAS 16 to batteries that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.



Example 1 – Property, plant and equipment

Entity A owns and controls a BESS installed at its logistics depot to support EV charging, reduce peak demand and lower electricity costs. The battery is used in the Entity A's own operations and is expected to be used for more than one period, so it is accounted for as property, plant and equipment under IAS 16.

For a detailed discussion of the requirements of IAS 16, refer to [International GAAP® 2026](#), Chapter 19.

6.1.1 Unit-of-account

IAS 16 requires an entity to identify the major parts of an item of PPE and depreciate each part over its useful life. It also requires derecognition of those parts of an item of property, plant and equipment that are replaced during repairs and maintenance. This means the following in practice:

- *Low value* - There is no explicit capitalisation threshold in IAS 16, but batteries that have a low value (e.g., individual batteries for handheld power tools) are often expensed immediately as being immaterial. However, an entity that buys many such batteries for its combined workforce would normally capitalise this as a single asset.
- *Integral to an item of PPE* - Batteries that are integral to a device are unlikely to be replaced and have the same useful life as the item of PPE that they are part of, are not separately accounted for (e.g., the battery in an EV may be integral to the car). An entity would determine the useful life, residual value, depreciation method, and derecognition for the combined item of PPE.

- *Accounted for separately* - Larger batteries that may be replaced or sold for other than scrap value are generally treated as separate assets (or parts) for the purposes of IAS 16.

Large BESS may comprise a range of components (e.g., battery cells, inverters, transformers, switchgear, cooling systems, and fire-suppression systems) that each individually meet the definition of a 'part' under IAS 16 and need to be accounted for separately. An entity will need to apply judgement to determine which components are to be accounted for separately under IAS 16.

6.1.2 Useful life, residual value, and depreciation method

The useful life of an item of PPE is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Batteries have improved significantly over time from a technical standpoint and continue to improve. They have become lighter and safer, are capable of more charging cycles, have slower performance degradation, have lower rates of self-discharge when left unused, and are much cheaper.

Below are some practical examples of these considerations that are made to determine the useful life of a BESS:

- *More than daily charging* - Batteries used in handheld power tools may be charged/discharged several times a day, such that after a few years their reliability and ability to hold charge will deteriorate significantly. The useful life of these batteries is limited by their physical life, and their residual value tends to be negligible.
- *Frequent charging* - Batteries used in cars or in conjunction with renewable energy generation may see less than a full charging cycle a day and are controlled by battery management software that helps extend their lives. The useful lives of these batteries might be limited either by economic factors or technical factors. In determining the useful lives of batteries that are used together with other assets, they might be limited by those other assets.
- *Infrequent charging* - Batteries that are used for backup purposes or to improve the reliability of the power supply may experience very little physical degradation. The use of these batteries is limited by economic factors, including the potential impact of technical obsolescence.

An entity needs to carefully determine the residual values of batteries because:

- Battery technology is subject to strong learning curve effects, so new batteries are likely to be better and cheaper, which makes second-hand use of older batteries less attractive.
- There is a large variety of batteries and battery systems, so the market for second-hand batteries of a particular type may be limited.
- There is little experience data with second-hand batteries as most battery capacity currently installed is fairly new.

The practical example below shows that the useful life of BESS may vary in the same way other items of PPE may have a range of useful lives.



Practical example 6 – Enel Spa (2025)

9 Consolidated financial statements [extract]

18. Property, plant and equipment [extract]

The estimated useful life of the main items of property, plant and equipment is as follows.

...

Transport lines	10-60 years
Transformer stations	20-55 years
Distribution systems:	
- high-voltage lines	10-60 years
- primary transformer stations	10-50 years
- low- and medium-voltage lines	10-50 years
Meters:	
- electromechanical meters	5-40 years
- energy balance measurement equipment	10-15 years
- electronic meters	15-25 years
Charging stations	7-15 years
Battery Energy Storage Systems (BESS)	10-30 years

As noted earlier, batteries experience performance degradation in their ability to hold a charge over their useful lives. IAS 16 mentions depreciation methods such as the straight-line method, the diminishing balance method and the units of production method. The straight-line method of depreciation provides a reasonable approximation of the expected pattern of consumption of the future economic benefits embodied in the asset. This method is commonly used for many other types of assets that see performance degradation of a few percent annually. However, if an entity uses a battery technology in such a way that it sees a steep performance degradation pattern, then it might want to consider applying a diminishing balance method.

Under the units of production method, the asset is depreciated in line with its expected use or estimated total output. By relating depreciation to the proportion of productive capacity utilised to date, it reflects the fact that the useful economic life of certain assets, principally machinery, is more closely linked to its usage and output than to time. This method is normally used in extractive industries, for example, to amortise the costs of development of productive oil and gas facilities, but it may be difficult to apply to BESS as total number of charging cycles might be difficult to forecast given the limited experience that exists to date with such assets.

6.1.3 Impairment

All items of PPE accounted for under IAS 16 are subject to the impairment requirements of IAS 36 *Impairment of Assets*, which sets out the procedures that entities apply to ensure that those assets in the scope of the standard are carried at no more than the amounts expected to be recovered through the use or sale of the assets. For a detailed discussion of the requirements of IAS 36, refer to [International GAAP® 2026](#), Chapter 21.

If circumstances arise which indicate assets could be impaired, the standard requires a review of their cash generating abilities (an impairment test). In many cases, individual assets will not have individually identifiable and independent cash inflows and, therefore, would need to be assessed for impairment on a cash-generating unit (CGU) level.

IAS 36 requires that assets be carried at no more than their recoverable amount, which is defined as the higher of fair value less costs of disposal and value in use. In many cases, assets will be tested for impairment on a cash-generating unit level. The difference between an asset's carrying amount and its recoverable amount is written off as an impairment loss in the statement of comprehensive income.

The fair value less cost of disposal of battery assets is largely driven by the value of new batteries. As the price of those batteries continues to come down quickly, the fair value less cost of disposal will similarly come down quickly. Therefore, in most cases, the value in use is more relevant for impairment testing of battery assets or cash-generation units containing battery assets.

In most of the use cases described earlier, batteries are used in combination with other assets and would generally be considered part of a larger CGU for impairment testing purposes. However, batteries that are exclusively used for power trading purposes might be the exception to that assessment.

For impairment testing purposes, entities need to carefully determine the value in use of batteries or cash-generation units containing battery assets, as the rapid build out of battery storage will affect the underlying economics of investments in, for example, batteries for trading purposes or co-located with power generation.

As noted in section 2.3 above, developing a discounted cash flow model for battery assets may require sophisticated modelling techniques that could also be applied in developing models for calculating the fair value less costs of disposal or the value in use of (a CGU containing) battery assets.

6.1.4 Decommissioning

Site restoration costs and other environmental restoration and similar costs arising from the construction or commissioning of an asset is estimated and capitalised at initial recognition, even if the expenditure will only be incurred at the end of the item's life. In addition, in some cases, an obligation for such costs may arise later in the asset's life, for example, as a result of changes in legislation. Such costs would also be capitalised as part of the cost of the item of PPE. The obligations are calculated in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

6.2 Intangible assets

Many battery projects involve battery management systems with optimisation algorithms and dispatch software.

IAS 38 *Intangible Assets* requires an entity to use judgement to assess which element is more significant in an asset that comprises both intangible and tangible elements and whether it should be accounted for under IAS 16 or IAS 38. If a BESS cannot operate without specific software (e.g., firmware), then the software is an integral part of the hardware and treated as part of the item of property, plant and equipment. However, if the software is not an integral part of the BESS and is generally easily replaced (e.g., trading algorithms), then the software is accounted for as an intangible asset.



How we see it

We believe that where IAS 16 requires an entity to identify parts of an asset and account for them separately, it needs to evaluate whether any intangible-type part is actually integral to the larger asset or whether it is a separate asset in its own right. The intangible part is more likely to be an asset in its own right if it was developed separately or if it can be used independently of the item of PPE of which it apparently forms part.



Example 2 – Intangible asset

Entity B owns a BESS that includes embedded battery management software needed to control charging, discharging, temperature and safety functions. The BESS cannot operate as intended without that software, so Entity B accounts for the embedded software as part of the BESS within property, plant and equipment under IAS 16.

Entity C separately develops trading software that analyses market prices and determines when to dispatch the BESS into the wholesale markets. The trading software can be used independently of the physical BESS and is not necessary for the BESS to operate. Therefore, Entity C applies IAS 38 to account for the trading software as a separate intangible.

For a detailed discussion of the requirements of IAS 38, refer to [International GAAP® 2026](#), Chapter 18.

6.3 Inventory

Entities that sell batteries account for the batteries under the cost model in IAS 2 *Inventories* up to the time of sale and apply IFRS 15 *Revenue from Contracts with Customers* to account for the revenue from contracts with customers. IAS 2 requires an entity to measure its inventories at the lower of cost and net realisable value, which it defines as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. To the extent that an entity uses batteries in the production of goods it applies IAS 2 to those goods produced and applies IFRS 15 to costs incurred to provide services.

For a detailed discussion of the requirements of IAS 2 and IFRS 15, refer to [International GAAP® 2026](#), Chapter 23 and section 9 of Chapter 28, respectively.

7. Battery arrangements based on contracts

When a battery arrangement is based on a contract between parties, an entity needs to understand the terms and conditions of the contract to determine the appropriate financial reporting outcome. The following questions provide a practical sequence for analysing contractual battery arrangements. They are intended to help determine whether the contract contains a lease, gives rise to a financial instrument, involves a sale of goods or services, represents a purchase of goods or services, or reflects a collaboration arrangement. A hybrid

arrangement could be a contract that involves multiple elements to be identified and accounted for under the applicable IFRS accounting standard. The answer will determine which IFRS accounting model applies and which sections of this publication provide further guidance.

- *Does the contract meet the definition of a lease?*
 - *Lessee accounting* – A lessee (an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration) recognises and measures a right-of-use asset and a related lease liability by applying IFRS 16 *Leases*. However, the standard only applies if there is an ‘identified asset’. IFRS 16 also contains recognition and measurement exemptions for short-term leases and low value underlying assets, and excludes certain variable lease payments from the lease payments for the purposes of measurement (see section 7.1 below).
 - *Lessor accounting* – A lessor (an entity that provides the right to use an underlying asset for a period of time in exchange for consideration) would apply IFRS 16, which distinguishes between (see section 7.2 below):
 - Operating leases that do not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, and
 - Finance leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
- *If the arrangement is not a lease in the scope of IFRS 16 - Does the contract meet the definition of a financial instrument?*
 - *Financial instrument* – It is also possible for the owner of a battery storage asset to raise funding from an investor who will be paid a portion of ‘cash flows as defined’ from the operation of the battery storage asset. The investor in that case does not control the battery, but rather holds an investment in a financial asset (i.e., a right to future cash flows) or a derivative contract in the scope of IFRS 9. Conversely, the battery owner will report that it has a financial liability (i.e., an obligation to pay cash) that is accounted for under IFRS 9 (see section 7.3 below).
- *Does the contract result in a sale to (and purchase by) a customer?*
 - *Revenue recognition from contracts with customers* – When considered from the seller’s perspective, revenue arrangements involving BESS can take many different forms. Battery owners may sell electricity that has been generated, stored and later delivered to the grid or directly to customers. Other arrangements involve batteries as a service, such as swappable battery networks. Electricity providers may also offer services that control customer-owned batteries to optimise electricity consumption or market participation. Revenue recognition questions also arise when an entity sells a BESS outright, particularly where the sales contract includes services such as installation, inspection, software updates or warranties. The key judgement across these arrangements is to identify the nature of the promise to the customer, determine whether control of goods or services is transferred, assess whether the entity acts as principal or agent, and consider whether some (or all) of the arrangement is in the scope of other IFRS accounting standards and/or IFRS 15 (see section 7.4 below).

- *Purchase of goods or services, when the arrangement is not a lease in the scope of IFRS 16* – Section 7.5 considers the accounting for purchase arrangements (e.g., purchase of a BESS, electricity, or ancillary services provided by a battery asset) from the buyer's perspective.
- *Does the contract establish a collaboration between different entities?*
 - *Collaboration arrangements* – Entities often enter into collaborative arrangements to jointly undertake an activity. In such arrangements, a counterparty might not always be a 'customer' of the entity. Instead, the counterparty might be a collaborator or partner that shares in the risks and benefits of the activity. While transactions among partners in collaboration arrangements are not within the scope of IFRS 15, entities need to use judgement to determine whether transactions are between partners acting in their capacity as collaborators or reflect a vendor-customer relationship (see section 7.6 below).
- *Does the contract combine several different types of arrangements?*
 - *Hybrid contracts* – Hybrid contracts comprise a mixture of different attributes that give them characteristics of financial liabilities, derivatives, leases, contracts with customers, and/or non-financial host contracts. The scoping paragraphs of IFRS accounting standards determine how an entity identifies the different elements and prescribe the order in which the accounting requirements are applied (see section 7.7 below).

Sections 7.1 to 7.7 below set out in more detail how each of these accounting models applies to battery storage and where more guidance can be found.

7.1 Lessee accounting

A lessee (an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration) applies IFRS 16 and recognises and measures a right-of-use asset and a related lease liability unless the recognition and measurement exemptions for short-term leases and low value underlying assets are elected.

At inception of a contract, an entity assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, an entity assesses whether, throughout the period of use, the customer has both of the following: (a) the right to obtain substantially all of the economic benefits from use of the identified asset (see section 7.1.2 below); and (b) the right to direct the use of the identified asset (see section 7.1.3 below).

At the commencement date, a lessee recognises a right-of-use asset and a lease liability. IFRS 16 requires lessees to recognise and measure a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases.

A lessee subsequently measures the right-of-use asset using a cost model, unless it applies the IAS 16 revaluation model or the IAS 40 *Investment Property* fair value model. When a lessee applies the cost model, the right-of-use asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses. A lessee applies the depreciation requirements in IAS 16 in depreciating the right-of-use asset, subject to the following requirements:

- If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.
- Otherwise, the lessee depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.
- Depreciation of the right-of-use asset is recognised in a manner consistent with existing standards for PPE. IAS 16 is not prescriptive about the methods of depreciation, mentioning straight line, diminishing balance and units of production as possibilities. The overriding requirement of IAS 16 is that the depreciation charge reflects the pattern of consumption of the benefits the asset brings over its useful life and is applied consistently from period to period (see section 6.1.2 above).

After the commencement date, a lessee measures the lease liability by:

- (a) increasing the carrying amount to reflect interest on the lease liability;
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments (right-of-use assets are adjusted for such remeasurement of the lease liability).



Example 3 – Lease of a BESS

Entity C operates a solar farm and enters into a five-year contract with a battery owner for the exclusive use of a specified BESS installed at Entity C's site. In the example:

- The underlying battery is identified (implicitly or explicitly) and the supplier does not have substantive substitution rights (see section 7.1.1 below).
- Entity C has the right to obtain substantially all of the economic benefits throughout the period of use from the identified BESS derived from its storage capability and capacity as it is entitled to the cash flows from the item (see section 7.1.2 below).
- Throughout the period of use, Entity C has the right to the relevant 'how and what purposes decisions' regarding the battery's use (i.e., Entity C decides when the BESS is charged and discharged to reduce peak demand charges and provide backup power which it concluded are the only relevant decisions about how and for what purpose the asset is used) (see section 7.1.3 below).

Therefore, the arrangement contains a lease in the scope of IFRS 16 and Entity C recognises and measures a right-of-use asset and lease liability in accordance with IFRS 16.

Also, Entity C is liable for the cost of charging the BESS while entitled to the proceeds from the sale of electricity through discharging

For a detailed discussion of the lessee requirements of IFRS 16, refer to [International GAAP® 2026](#), Chapter 24. Also refer to section 7.1.6 below on a recent IFRS Interpretations Committee agenda decision on assessing the economic benefits from use of a battery under an offtake arrangement.

7.1.1 Identified asset and substitution rights

An arrangement only contains a lease if there is an identified asset. An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

A capacity portion of an asset is an identified asset if it is physically distinct (e.g., a floor of a building). A capacity or other portion of an asset that is not physically distinct (e.g., a capacity portion of a battery) is not an identified asset unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset. For example, the right to use half of the capacity of a battery storage facility without dedicated batteries allocated generally does not give rise to a lease.

Even if the asset is specified, a customer does not have the right to use the identified asset if, at inception of the contract, a supplier has the substantive right to substitute the asset throughout the period of use (i.e., the total period of time that the asset is used to fulfil a contract with a customer, including the sum of any non-consecutive periods of time).

7.1.2 Right to obtain substantially all of the economic benefits from use of the identified asset

To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period). A customer can obtain economic benefits either directly or indirectly (e.g., by using, holding or subleasing the asset). Economic benefits include the asset's primary outputs (i.e., goods or services) and any by-products, including potential cash flows derived from these items. Economic benefits also include benefits from using the asset that could be realised from a commercial transaction with a third party (e.g., subleasing the asset). However, economic benefits arising from construction or ownership of the identified asset (e.g., tax benefits related to excess tax depreciation and investment tax credits) are not considered economic benefits derived from the use of the asset. Therefore, they are not considered when assessing whether a customer has the right to obtain substantially all of the economic benefits.

7.1.3 Right to direct the use of the identified asset

A customer has the right to direct the use of an identified asset throughout the period of use when either:

- The customer has the right to direct how and for what purpose the asset is used throughout the period of use.
- The relevant decisions about how and for what purpose an asset is used are predetermined and the customer either: (1) has the right to operate the asset, or to direct others to operate the asset in a manner that it determines, throughout the period of use, without the supplier having the right to change those operating instructions; or (2) designed the asset, or specific aspects of the asset, in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

If the customer has decision making rights about and when to buy or sell electricity (i.e., when to charge and discharge) that would indicate it has the right to direct the use of the battery.

In some cases, the contractual arrangement may specify that the buying and selling decisions are determined by automated means (e.g., software) which may or may not be predetermined. In those cases, a customer's right to determine how the software is used to buy or sell electricity, could also indicate that the customer has the right to direct the use of the BESS.

7.1.4 Short-term lease exemption and low value lease exemption

IFRS 16 requires lessees to recognise and measure both a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases, except for short-term leases and leases of low-value assets if they choose to apply such exemptions.

A short-term lease is defined as a lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.

Lessees can also make an election for leases for which the underlying asset is of low value (i.e., US\$5,000 or less, expressed in 2015 price levels). This election can be made on a lease-by-lease basis.

If a lessee elects to apply either the short-term lease exemption or the low value lease exemption, it does not recognise a lease liability or right-of-use asset on its statement of financial position. In addition, such a lessee recognises the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, if that basis is more representative of the pattern of the lessee's benefit.

7.1.5 Variable lease payments

A lessee remeasures the lease liability by discounting the revised lease payments if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including, for example, a change to reflect changes in market rental rates following a market rent review. The lessee remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect). A lessee determines the revised lease payments for the remainder of the lease term based on the revised contractual payments.

Variable lease payments that do not depend on an index or rate and are not, in substance, fixed, such as those based on performance (e.g., a percentage of sales) or usage of the underlying asset (e.g., the number of kWh stored in and discharged from a battery), are not included as lease payments. This is the case when the usage of the battery is genuinely variable, even if that usage rarely tends to be outside a fairly predictable range. Instead, the variable lease payments are recognised in profit or loss (unless they are included in the carrying amount of another asset in accordance with other IFRS accounting standards) in the period in which the event that triggers the payment occurs.

In some cases, the variability may be resolved during the lease term, so that payments become fixed for the remainder of the lease term. The new fixed payments are then used to remeasure the lease liability (with a corresponding entry to the right-of-use asset).

7.1.6 Economic benefits from use of a battery under a certain type of offtake arrangement (gross electricity markets)

In April 2026, the IASB published an IFRS Interpretations Committee (IFRS IC) agenda decision on how an entity applies the requirements when determining whether a customer has the right to obtain substantially all of the economic benefits from use of an identified asset.²⁰

The IFRS IC considered a fact pattern in which a battery owner and an electricity retailer are registered participants in a gross pool electricity market, which is one of two types of market:

- *Gross pool electricity markets* are ones in which "... all purchases and sales of electricity are cleared through a market operator on a gross basis, without the market operator taking delivery or on-selling electricity. There

²⁰ IFRS IC agenda decision April 2026.

is no bilateral contract fulfilment between an actual seller (generator) and an actual buyer (customer). Instead, all transactions are settled at spot prices via the market operator that acts as a clearing house for energy transactions.”²¹

- *Net pool electricity market* are ones in which “... the energy sellers (generators) contract directly with electricity buyers (customers) for the volume of electricity to be delivered and the contracts are physically deliverable. When electricity is produced, the electricity generator transfers the electricity via the grid and credits the customer’s account with the volume delivered. When notified of the delivery, the customer has a specified time interval to clear the account by consuming the electricity (typically 15-30 minutes) to avoid an imbalance in the grid.”²²

In the fact pattern considered by the IFRS IC, the “... battery owner retains custody of the battery but is contractually obliged to operate it in accordance with the electricity retailer’s instructions, which cover 100% of the capacity of the battery; the battery cannot be substituted ... The electricity retailer can instruct the battery owner to charge and discharge the battery throughout the period of use (including multiple times during each day).”

The fact pattern describes the battery owner as the registered participant, who settles transactions occurring under the offtake arrangement, as follows:

- The electricity retailer pays a fixed amount to the battery owner over the period of the contract for the right to use the battery.
- The battery owner operates the battery according to the electricity retailer’s instructions by buying and selling electricity and settles those transactions with the market operator at spot price.
- The battery owner and the electricity retailer settle the difference between the transactions above periodically, net in cash.

The fact pattern in the agenda decision assumes that the electricity retailer has the right to direct the use of the battery and asks whether the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery (paragraph B9(a) of IFRS 16).

The IFRS IC observed that, in the fact pattern described in the requests, the battery is used to store, and then release, electricity – but not to produce electricity. The IFRS IC also observed that the battery offtake arrangement provides the electricity retailer with the economic benefits derived from the battery storage because the electricity retailer has the exclusive right:

- To use the entire capacity of the battery throughout the period of use (for the duration of the arrangement); and
- To direct the battery owner as to whether, when and by how much to charge and discharge the battery.

Therefore, the IFRS IC concluded that the electricity retailer has the right to obtain substantially all of the economic benefits from use of the battery.

²¹ IFRS IC, Staff paper 2, June 2023, para. 46.

²² IFRS IC, Staff paper 2, June 2023, para. 49.

7.2 Lessor accounting

As noted in section 7.1 above, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Arrangements involving batteries that do not meet these criteria are not leases and may have to be treated as financial instruments or contracts for services (see sections 7.3 and 7.4 below).

At inception date, lessors classify all leases as finance leases or operating leases. Paragraph 62 of IFRS 16 states that, "A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset."

For a detailed discussion on how to determine whether a lease is a finance or an operating lease, refer to Chapter 24, section 6.1 of International GAAP® 2026.

7.2.1 Finance leases

At lease commencement, a lessor (other than a manufacturer or dealer lessor) accounts for a finance lease, as follows:

- Derecognises the carrying amount of the underlying asset
- Recognises the net investment in the lease
- Recognises, in profit or loss, any selling profit or selling loss

For finance leases, initial direct costs are included in the initial measurement of the finance lease receivable.

A manufacturer or dealer lessor recognises revenue, cost of sales, and selling profit or loss in accordance with its policy for outright sales to which IFRS 15 applies at lease commencement. It also recognises as an expense, costs incurred in connection with obtaining a finance lease at the commencement date. For a detailed discussion, refer to Chapter 24, section 6.3.2 of [International GAAP® 2026](#).

After lease commencement, a lessor accounts for a finance lease, as follows:

- Recognises finance income (in profit or loss) over the lease term in an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease (i.e., using the interest rate implicit in the lease). Income is recognised on the components of the net investment in the lease, including:
 - Interest on the lease receivable
 - Interest via accretion of the unguaranteed residual asset to its expected value at the end of the lease
- Reduces the net investment in the lease for lease payments received (net of finance income calculated above)
- Separately recognises income from variable lease payments that are not included in the net investment in the lease (e.g., performance- or usage-based variable payments) in the period in which that income is earned
- Recognises any impairment of the net investment in the lease

7.2.2 Operating leases

Under IFRS 16, lessors continue to recognise the underlying asset and do not recognise a net investment in the lease on the statement of financial position or initial profit (if any) on the income statement. The underlying asset continues to be accounted for in accordance with applicable accounting standards (e.g., IAS 16).

Lessors subsequently recognise lease payments over the lease term on either a straight-line basis or another systematic and rational basis if that basis better represents the pattern in which benefit is expected to be derived from the use of the underlying asset. After lease commencement, lessors recognise variable lease payments that do not depend on an index or rate (e.g., performance- or usage- based payments) as they are earned.

A lessor recognises costs incurred, including depreciation, in earning the lease income as an expense. IFRS 16 also requires lessors of operating leases to defer initial direct costs at lease commencement and recognise them over the lease term on the same basis as lease income.

The depreciation policy for depreciable underlying assets subject to operating leases has to be consistent with the lessor's normal depreciation policy for similar assets. A lessor calculates depreciation in accordance with IAS 16 and IAS 38. A lessor applies IAS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

A manufacturer or dealer lessor does not recognise any selling profit on entering into an operating lease because it is not the equivalent of a sale.

7.3 Financial instruments

7.3.1 Types of financial instruments

Contractual arrangements that refer to a BESS may meet the definition of a financial instrument when the contract does not transfer the physical use (control) of the item, for example:

- *Battery offtake arrangements* - Section 7.1.6 above discussed a battery offtake arrangement that results in a lease under IFRS 16. However, a battery offtake arrangement in which an entity does not obtain substantially all of the economic benefits or does not have the right to direct the use of the battery, would not qualify as a lease under IFRS 16 and might qualify as either a financial instrument or the purchase of electricity (e.g., if there is exposure to electricity prices, and net settlement, then this may be a derivative) (see section 7.5 below)
- *Virtual battery arrangements* - If an arrangement involves a 'virtual battery' (i.e., there is no physical asset) then the contract is a financial instrument as there is no physical asset to be controlled, no electricity to be delivered, and there is only a cash settlement that is exposed to market price movements (i.e., this may be a derivative).
- *Virtual power purchase agreements (VPPAs)* - In a VPPA there is a physical asset, but the arrangement does not involve the physical purchase or delivery of energy, rather they are typically structured as a 'contract for differences' between the fixed price (per MW of energy) determined in the

VPPA and the spot price at which energy could be purchased from the grid (i.e., net settled). The volume of energy determined in such contracts is usually based on all or a proportion of the energy delivered from a referenced production facility. Hence, the volume is variable and cannot be determined with certainty in advance. These contracts would typically meet the definition of a derivative and are often transacted as part of a risk management strategy for the physical purchase of energy used in a business.

- *Loans referring to cash flows from a battery asset* - The developer of a battery project may sometimes be able to obtain debt financing, whereby the interest and repayment schedule are based (in part) on the cash flows generated from the battery storage assets held by the project entity.

From the perspective of the lender, this would meet the definition of a financial asset. If the instrument meets the 'solely payments of principal and interest', then it may be possible to account for the loan at amortised cost using the effective interest rate (EIR) method. The most common instruments that normally pass the test are plain vanilla debt instruments which are acquired at par, have a fixed maturity and pay interest that is fixed at inception. Instruments that pay variable interest also normally pass the test, although further consideration is required in that case. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Non-recourse features, exposure to asset performance, financial leverage, or subordination features, may also result in the instrument being measured at fair value through profit or loss under IFRS 9.



How we see it

Contracts referring to batteries that do not involve the delivery of electricity or the control of a physical battery asset, and that are net settled in cash, will generally meet the definition of a (derivative) financial instrument under IFRS 9.

For a detailed discussion of the requirements of IFRS 9 and IFRS 7 *Financial Instruments: Disclosures*, refer to [International GAAP® 2026](#), Chapters 40 to 50.

7.3.2 Financial instruments: Determining fair value

If an entity concludes that a financial instrument relating to a battery arrangement needs to be measured at fair value, then it applies IFRS 13 *Fair Value Measurement*. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value framework in IFRS 13 is based on a number of key concepts, including unit of account, exit price, valuation premise, highest and best use, principal market, market participant assumptions and the fair value hierarchy. For a detailed discussion of the requirements of IFRS 13, refer to [International GAAP® 2026](#), Chapter 15.

The fair value hierarchy in IFRS 13 distinguishes between three levels of inputs to fair value measurements:

- *Level 1* - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- *Level 2* - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- *Level 3* - Unobservable inputs for the asset or liability

If battery-related financial instruments need to be measured at fair value, it will often be the case that their valuation depends on significant Level 3 inputs such as the production of a related renewable energy asset or the usage by a particular customer. In practice, discounted cash flow models may be used and the assumptions should reflect those that market participants would use when valuing the battery-related financial asset or liability. These assumptions may build on the same operational dispatch models, revenue stack models and project finance models that are used to assess the commercial viability of a BESS project (see section 2.3 above). As shown in the practical example below, IFRS 13 requires specific disclosures for contracts that are measured using significant Level 3 inputs including information about valuation techniques, the significant unobservable inputs and sensitivity analysis.



Practical example 7 – Kerry Group plc (2025)

Notes to the Financial Statements [extract]

25. Financial instruments [extract]

Financial risk management objectives [extract]

(iii) Derivative financial instruments [extract]

(iii.iii) Forward commodity contracts [extract]

The Group has entered into two Virtual Power Purchase Agreements (vPPAs) in the United Kingdom both of which include an embedded derivative with a fair value of €0.4m (2024: €1.9m). A vPPA is a contract for differences where the entity agrees to pay or receive the difference between the market price of electricity and a fixed price. The embedded derivative is classified as a cashflow hedge. The hedged risk is the exposure to variability in future cash flows caused by the fluctuation of the wholesale electricity price component of forecast electricity purchases. The fair value of the embedded derivative is determined using a valuation technique that incorporates significant unobservable inputs (Level 3).

Level 3 Fair value disclosures

Valuation Techniques and Inputs: The fair value of the embedded derivative is determined using a discounted cash flow model. Key inputs include forecasted electricity prices, discount rates, and the expected production of the renewable energy asset. Observable inputs are possible for a period of the valuation, beyond which the unobservable inputs are constructed using a forward curve of the UK baseload electricity using proxy curves and other adjustments to other observable and unobservable market data inputs.

Reconciliation of Fair Value Measurements:

	Fair Value Asset/(Liability)	
	2025 €m	2024 €m
Opening balance	1.9	–
Transfers into Level 3	–	1.9
Movements recognised in profit or loss	0.6	–
Movements recognised in OCI	(2.1)	–
Closing balance	0.4	1.9

There were no transfers between fair value levels during the period. As 2024 was the first period of reporting, all amounts were for Transfers into Level 3.

Sensitivity Analysis: The Group performs a sensitivity analysis for the significant unobservable inputs used in the fair value measurement. A +/- 5% movement in the capture rates input to determine the fair value of the vPPA contracts would have resulted in movements +/- of the fair value by €1.6m (2024: €1.8m).

Credit risk assessment

The Group assess the credit risk associated with the counterparty to the vPPAs. The fair value is adjusted to reflect the two-way risk of loss for both the Group and the counterparty using a CVA/DVA approach. There was a minimal impact for credit risk assessment as at 31 December 2025.

7.4 Revenue recognition from contracts with customers

Before an entity can apply IFRS 15 to a battery arrangement, it first needs to determine that the contract is not within the scope of other standards that deal with contracts with customers. For example, a lease in the scope of IFRS 16 (see sections 7.1 and 7.2 above) or a financial instrument in the scope of IFRS 9 (see section 7.3 above). IFRS 15 only deals with the accounting from the point of view of the party that is selling goods or services, accounting by the buyer is discussed in section 7.5 below. For a detailed discussion of the requirements of IFRS 15, refer to [International GAAP® 2026](#), Chapter 28.

When applying IFRS 15 to battery arrangements, it is important an entity determines the nature of its promise to the customer (e.g., a service, sale of the battery). If another entity is involved in providing the good or service to the customer, it is important to determine whether the entity is acting as principal or agent as this affects the amount of revenue the entity recognises. When the entity is the principal in the arrangement, the revenue recognised is the gross amount to which the entity expects to be entitled. When the entity is the agent, the revenue recognised is the net amount that the entity is entitled to retain in return for its services as the agent. The entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

After an entity determines whether it is the principal or the agent and the amount of gross or net revenue that would be recognised, the entity recognises revenue when (or as) it satisfies its performance obligation. An entity satisfies its performance obligation by transferring control of the specified good or service underlying the performance obligation, either at a point in time or over time. That is, a principal would recognise revenue when (or as) it transfers the specified good or service to the customer. An agent would recognise revenue when its performance obligation to arrange for the specified good or service is complete.

Revenue from contracts with customers can arise in different ways, as discussed below.

7.4.1 Selling electricity

Battery owners that sell electricity into the grid (or directly to customers) generally fall into one of the following categories:

- *Electricity generators or retailers* - Entities that generate electricity (e.g., owners of a solar farm) would normally apply IFRS 15 to the revenue from the sale of electricity that was temporarily stored in a battery. The self-generated electricity stored in batteries is subject to IAS 2 (i.e., it is a product awaiting sale), but in the case of short-duration storage systems, the value of stored electricity carried from one accounting period to the next is often not significant.
- *Commodity broker-traders* - These are defined in paragraph 5 of IAS 2 as those who buy or sell commodities for others or on their own account and these inventories are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Commodity broker-traders measure their inventories at fair

value less costs to sell. Commodity-based contracts are in the scope of IFRS 9 (i.e., they do not meet the normal purchase and sales exemption) if they were *not* entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. Therefore, commodity broker-traders that hold such contracts would normally account for them under IFRS 9 and present income and expense from such contracts net as part of trading revenue (and not present revenue and cost of goods sold separately).

For a detailed discussion on identifying whether an entity is a commodity broker-trader or similar entity, refer to [International GAAP® 2026](#), Chapter 41 section 3.3.2.

7.4.2 Arrangements with a lease component

There are entities that provide swappable batteries (e.g., for electric scooters) that allow a user to exchange a discharged battery for a fully charged battery. In most such arrangements, the customer does not own a battery, rather it pays a fixed monthly charge that includes the lease of a battery and a set amount of electricity (or driving distance). Customers pay an additional fee for excess mileage.

As the batteries are regularly swapped, these contracts give rise to a series of short-term leases. Therefore, the operator of the swap network (lessor) would account for this part of the arrangement as an operating lease. If customers pay a refundable deposit for the battery, then the lessor also recognises a deposit liability. Part of the monthly fee should be allocated to the IFRS 16 operating lease of the battery and part to the IFRS 15 performance obligation for providing electricity. For customers without excess mileage, both amounts are recognised over the same period, but for customers with excess mileage, the fixed fee relating to electricity is recognised over the shorter period in which they are expected to use the base mileage. If customers are allowed to carry over unused mileage, then the operator also considers the IFRS 15 application guidance on customers' unexercised rights.

7.4.3 Electricity providers controlling large appliances

There are electricity providers that sell dynamic electricity contracts (i.e., with dynamic hourly pricing) together with services that allow them to control the operation of solar panels, heat pumps, electric vehicle chargers, and batteries. The aim of those services is primarily to reduce the average dynamic price of electricity purchased, but part of the benefit may arise from selling electricity into the grid and from the imbalanced markets. The electricity provider may need to pay the customer for sales into the grid, but the accounting will depend on the market structure:

- *Purchase/sale* - The electricity provider purchases electricity from the customer and reports this as a purchase and then sells the electricity to another customer and reports this as revenue. Whether or not this is possible depends on the market structure (i.e., gross or net pool market, see section 7.1.6 above) and whether the electricity provider obtains control.

- *Selling agent* - If the electricity provider is considered to be an agent selling electricity on behalf of the customer, then it would account for the settlement of the cash flows, report revenue from its fee as an agent, but not report a purchase and a sale of electricity.
- *Bonus payments* - Electricity customers may receive a 'bonus' from the electricity provider that is derived from the imbalanced market by temporarily curtailing (or increasing) usage by large appliances. These bonus payments would have to be assessed under the IFRS 15 guidance on consideration paid or payable to a customer. If these payments are not for separate goods or services purchased, they would, in most cases, be regarded as a reduction in the proceeds from the sale of electricity to customers.

7.4.4 Sale of a BESS

An entity that is in the business of selling batteries to customers, would initially account for those batteries as inventory (see section 6.3 above). When an entity sells a battery to customers it would apply IFRS 15 to the transfer of control over the battery. IFRS 15 provides specific requirements on identifying performance obligations (which might include separating the sale of goods from services (e.g., annual inspection and software updates) that are provided under the same contract), when to recognise the revenue, determining the transaction price, and the treatment of warranties, rights of return, customer acceptance, financing components, and many other complications that can arise in sales to customers.

7.4.5 Sale of a BESS that will be operated by the seller

If an entity sells a BESS to a customer, but it will operate the BESS subsequently, then it is important to assess the substance of the arrangement, as it could for example be:

- *A genuine sale of the BESS with a separate operating and maintenance contract* - Indicators supporting a transfer of control over the BESS (i.e., a genuine sale) would exist if the customer obtains legal title, bears significant residual value risk, can direct the use of the BESS and/or can benefit from the BESS operations, or the seller's ongoing activities are merely operational services. If there is a transfer of control, then the seller would apply IFRS 15 to the sale of the BESS and the operating and maintenance contract.
- *A financing/lease arrangement rather than a sale* - If the customer pays upfront, but the seller continues to operate the BESS, guarantees minimum returns, and repurchases the BESS or absorbs major risks, then the seller might have retained control and economic exposure. In such cases, the seller would not derecognise the BESS. Instead, the IFRS 15 guidance on repurchase agreements might require the transaction to be accounted for as a lease or as a financing arrangement, depending on how the repurchase price compares with the selling price.
- *Service arrangement in which control of the BESS never truly transfers* - This could be akin to a contract for selling electricity (see section 7.4.1 above).
- *Contract containing derivatives or revenue-sharing features* - In some cases, the substance of the arrangement may be that of a financial instrument (see section 7.3) or that of a collaboration arrangement (see section 7.6).



How we see it

Arrangements involving the sale of a BESS that will continue to be operated by the seller require careful analysis of the substance of the rights and obligations, as this determines which accounting standard should be applied.

7.5 Purchase of goods or services

While IFRS 15 provides specific guidance on the accounting for the sale of goods and services to customers, there is no corresponding IFRS accounting standard that deals with the accounting for the purchase of goods and services. That said, an entity that purchases a BESS would apply IAS 16 if it resulted in an item of PPE, and would apply IAS 2 if it resulted in inventory. An entity that leases a BESS would apply IFRS 16 lessee accounting.

A customer may enter into a contract to purchase electricity stored in a BESS (e.g., backup power) or a grid operator may enter a contract for ancillary services (e.g., for voltage or frequency regulation or synthetic inertia) that are provided by a battery asset. If such contracts do not meet the definition of a lease, then they are generally accounted for as executory contracts. The customer would only account for expenses related to the goods or services received and for a prepayment asset or an accrual for any unpaid liabilities. To the extent that such a contract is onerous (i.e., the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it), IAS 37 requires that an entity recognises a provision for the present obligation under the contract.

7.6 Collaboration arrangements

In a collaboration arrangement, two or more parties have an agreement to work together to achieve a common objective, such as sharing the use of an asset or sharing the risks and rewards from an activity. An arrangement that operates under joint control would meet the definition of a joint arrangement as defined in IFRS 11 and the guidance discussed in section 5.2 above would apply. However, in collaboration arrangements there is no joint control, there are just parties that each carry out their own activities and then share part of the benefits generated.

Collaboration arrangements can take many different forms depending on the needs of the parties to the arrangement. Example 4 below illustrates the types of accounting questions that these arrangements could give rise to.

In a collaboration arrangement two or more parties have an agreement to work together to achieve a common objective, such as sharing the use of an asset or sharing the risks and rewards from an activity



Example 4 - Collaboration arrangement

Entity A owns a solar farm that is connected to the grid, but it does not have the financial means to invest in a BESS nor the expertise to operate one profitably. Entity B has invested in many BESS projects and possesses the expertise to operate these projects co-located with solar farm facilities profitably.

Entity A and Entity B enter into the following agreement:

- Entity A leases space on its site on which Entity B installs a BESS that it pays for. The BESS will be connected to the solar farm and through the solar farm the grid connection.
- Entity B will operate and maintain the BESS.
- Entity A sells at spot prices all the electricity that it generates directly to the grid. Entity B is allowed to use any available excess capacity on the grid connection to sell electricity to the grid. Entity B is also allowed to buy electricity at spot prices from the grid. Entity B is entitled to all trading profits on buying from and selling to the grid.
- If Entity A's grid connection is curtailed because too much electricity is being generated on the grid, then Entity B is required to purchase the electricity generated by the solar farm, until its BESS is fully charged, for an initial consideration of zero. However, when Entity B subsequently sells that electricity (after adjustment for storage losses), it will share 40% of the revenue with Entity A as consideration for its use of the land, the grid connection, and the electricity.

There is no specific IFRS accounting standard that deals with collaboration arrangements, so Entity A and Entity B will need to assess whether any other accounting standards might apply.

Entity A would consider the following:

- By leasing land to Entity B, Entity A acts as a lessor under IFRS 16, but there is no fixed lease payment and only part of its 40% revenue share could be considered as variable lease payment.
- While Entity A makes the excess capacity of its grid connection available to Entity B, this would not be a lease as Entity B does not have the right to obtain substantially all of the economic benefits from use of the grid connection. Entity A might conclude that a vendor-customer relationship exists with Entity B for this aspect of the arrangement that is subject to IFRS 15, but if that is not the case, then it would need to develop an accounting policy under IAS 8.
- Entity A also sells electricity that would otherwise have been curtailed to Entity B for an initial consideration of zero and a variable consideration equal to 40% of subsequent revenue. Entity A would need to consider whether or not a vendor-customer relationship exists with Entity B that is subject to IFRS 15.

In summary, Entity A needs to present the part of its revenue share related to the lease of land as variable lease consideration, the remainder (related to

the grid connection and electricity sold) is presented as IFRS 15 revenue or other income depending on its accounting policy.

Entity B would consider the following:

- By leasing land, Entity B becomes a lessee under IFRS 16, but there is no fixed lease payment and only part of Entity A's 40% revenue share could be considered as variable lease payment.
- Entity B owns and operates the BESS and will account for all related expenditure in the period in which it arises.
- Entity B can use the grid connection to trade electricity by buying from and selling to the grid. It would account for electricity purchased as inventory under IAS 2 and account for the subsequent sale as trading income.
- Entity B acts as a broker/trader when it is required to purchase electricity from Entity A's solar farm to prevent curtailment and they recognise inventory at fair value less cost to sell, which is initially zero. When they sell the electricity to the grid, they will recognise trading income equal to its 60% share of revenue.

In summary, Entity B accounts for its investment in the BESS, a lease of land with an entirely variable lease payment, and trading income from the sale of electricity.



How we see it

Developing an accounting policy for collaborative arrangements can be quite challenging given the limited guidance provided by IFRS accounting standards and the fact that they often contain complex contractual terms and give rise to non-monetary exchanges for which it is not easy to determine a fair value. Importantly, entities need to consider whether any IFRS accounting standards apply to some (or all) of a collaborative arrangement (e.g., IFRS 11, IFRS 9, IFRS 15) before developing a policy for any residual component of a collaboration.

Hybrid contracts comprise a mixture of different attributes that give them characteristics of financial liabilities, derivatives, leases, contracts with customers, and/or non-financial host contracts

7.7 Hybrid contracts

Hybrid contracts comprise a mixture of different attributes that give them characteristics of financial liabilities, derivatives, leases, contracts with customers, and/or non-financial host contracts (e.g., collaboration arrangements are often hybrid contracts). The scoping paragraphs of IFRS accounting standards determine how an entity identifies the different elements and prescribe the order in which the accounting requirements are applied.

IFRS 9 provides guidance on identifying and separating embedded derivatives from hybrid financial liabilities and non-financial host contracts. The accounting treatment for a separated embedded derivative is the same as for a standalone derivative.

IFRS 16 requires an entity to determine whether a contract is, or contains, a lease at the inception of the contract. The assessment of whether a contract is or contains a lease will be straightforward in most arrangements. However, judgement may be required in applying the definition of a lease to certain arrangements. For example, in contracts that include significant services, determining whether the contract conveys the right to direct the use of an identified asset may be challenging.

IFRS 16 provides a practical expedient that permits lessees to make an accounting policy election, by class of underlying asset, to account for each separate lease component of a contract and any associated non-lease components as a single lease component. Although it is not explicitly stated, we believe that non-lease components relate to services contained within the lease contract. Also, a lessee cannot apply the practical expedient to embedded derivatives that need to be separated under IFRS 9.

When entities enter into transactions that are partially within the scope of IFRS 15 and partially within the scope of other IFRS accounting standards, IFRS 15 requires an entity to apply any separation and/or measurement requirements in the other IFRS accounting standard first, before applying the requirements in IFRS 15.

8. Disclosures

While IFRS accounting standards do not prescribe specific disclosures for BESS, the general IFRS accounting disclosure requirements that might be relevant can be grouped as follows:

- *Accounting policies*

Paragraph 117 of IAS 1 *Presentation of Financial Statements* requires disclosure of "... material accounting policy information. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."²³ An entity that enters into complex BESS arrangements may need to disclose information about the accounting policies that it applies, as this will generally be relevant to understanding the financial statements.

- *Judgements, assumptions and estimates*

Paragraph 122 of IAS 1 requires disclosure of judgements that "... management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements".²⁴ Paragraph 125 of IAS 1 requires an entity to "... disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year."²⁵

²³ IFRS 18 *Presentation and Disclosure in Financial Statements*, which is effective for annual reporting periods starting on or after 1 January 2027, moved these requirements to paragraph 27A of IAS 8 *Basis of Preparation of Financial Statements*.

²⁴ Entities that apply IFRS 18 should refer to paragraph 27G of IAS 8.

²⁵ Entities that apply IFRS 18 should refer to paragraph 31A of IAS 8.

- *IFRS accounting standards*

The IFRS accounting standards that were identified in sections 4 to 7 above as being relevant in accounting for BESS arrangements contain disclosure requirements that should be considered where applicable:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IAS 2 Inventories
- IAS 16 Property, Plant and Equipment
- IAS 28 Investments in Associates and Joint Ventures
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets
- IAS 40 Investment Property
- IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

9. Concluding remarks

Battery energy storage systems are becoming central to the operation, resilience and economics of electricity systems. Their rapid growth reflects the increasing need for flexibility as renewable generation, electrification and grid constraints reshape power markets. BESS can create value by storing electricity, shifting consumption or generation across time, supporting grid stability, improving the economics of renewable generation, reducing exposure to congestion and peak prices, and enabling new business models for both asset owners and electricity users.

The accounting for BESS is highly dependent on the facts and circumstances. The same physical battery asset can give rise to different IFRS accounting outcomes depending on who controls the asset, how it is financed, how it is used, and the rights and obligations that arise from the relevant contracts. Some arrangements involve direct ownership of a battery asset and require analysis under IAS 16, IAS 38 or IAS 2. Others involve a separate legal entity, requiring assessment under IFRS 10, IFRS 11, IAS 28 or IFRS 9. Contractual arrangements may instead contain a lease, a financial instrument, a revenue contract, a service arrangement, a collaboration arrangement or a hybrid contract with multiple elements.

Entities need to, therefore, start by understanding the commercial purpose of the BESS arrangement, the flow of economic benefits and the allocation of decision-making rights. This includes identifying whether the arrangement conveys control of an identified asset, whether cash flows are linked to electricity prices or battery performance, whether the parties are acting as customers, suppliers or collaborators, and whether multiple accounting standards need to be applied in a specific order. In many cases, judgement will be required, particularly where projects combine physical assets, software, trading activities, variable payments, shared infrastructure and multiple revenue streams.

As BESS deployment continues to scale, entities will need robust processes to support both investment decisions and financial reporting. Operational dispatch models, revenue stack models and project finance models can be important not only for assessing the business case, but also form the basis for impairment testing assumptions, fair value measurement and disclosure. Clear documentation of the arrangement, the relevant IFRS accounting model and the key judgements applied will be essential to achieving consistent and supportable accounting outcomes.

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