

Impairment of cash-generating units, individual items of property, plant and equipment, and intangible assets

If there is any indication of impairment, the Group estimates the recoverable amounts of assets and cash-generating units. While determining the recoverable amount, such key variables as discount rates, growth rates and price indices are taken into account.

As at December 31st 2018, following an analysis of cash flows for individual cash-generating units and the required impairment tests for assets, the Group made necessary adjustments to assets and disclosed detailed information on the test assumptions and results in Note 13.

Provision for decommissioning of the upstream segment's facilities and site restoration

As at the end of each reporting period, the Group analyses the costs necessary to decommission oil and gas extraction facilities and the expenditure to be incurred on future site restoration. As a result of those analyses, the Group adjusts the value of the site restoration provision recognised in previous years to reflect the estimated amount of necessary future costs. Any changes in the estimated time value of money are also reflected in the amount of the provision. For information on the rules for recognition of those provisions and information on provisions disclosed in these financial statements for 2018, see Note 7.24.1 and Note 25.1, respectively.

Professional judgement in accounting

Joint control of an investee or operation

The Group and two or more investors jointly control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the cooperation of other investors, no investor individually controls the investee. The Group assesses whether it shares control of an arrangement, which – in accordance with IFRS 11 *Joint Arrangements* – may be defined either as a joint venture or a joint operation, taking into consideration whether all parties to the arrangement have control of it, whether they share exposure, or rights, to variable returns from their involvement with the investee, and whether they have the ability to jointly use their power over the investee to affect the amount of their returns.

As at the end of the reporting period, the Group was involved in joint operations under projects carried out in the Heimdal fields in Norway, and in joint ventures (see Note 14), as defined in IFRS 11, and in that respect, considering all facts and circumstances, it had joint control.

As at December 31st 2018, the Group also held interests in the Sleipner gas fields in Norway. Upon their acquisition in December 2015 (see Note 13.1.3 in the [consolidated financial statements for 2015](#)), the Group entered into an agreement with the other holders of the Sleipner, Gungne, Loke, Alfa Sentral and PL046D licences. Considering the IFRS 11 criteria, the Group's operations in those fields do not constitute joint arrangements as defined in the standard, and the Group does not have joint control of the operations, as there is more than one combination of parties that can agree to decisions about the relevant activities. Therefore, for the purpose of correct recognition and measurement of transactions related to the operations in the Sleipner fields, the Group applies other relevant IFRSs taking into account its interest in the fields, which ensures that there are no material differences in the accounting recognition and measurement of transactions related to these operations and the manner of recognising operations which are carried out jointly with the Heimdal licence interest holders and meet the definition of joint operations within the meaning of IFRS 11.

Classification of lease contracts

The Group classifies its lease contracts as finance leases or operating leases based on the assessment of the extent to which the risks and rewards incidental to asset ownership have been transferred from the lessor to the lessee. Such assessment is in each case based on the economic substance of a given transaction. At the inception of a lease, the Group assesses all facts, circumstances and conditions, and specifies the objectives and intentions concerning the contract, in order to determine if substantially all the risks and rewards of ownership have been transferred to the lessee. In the event of material amendments to a lease, the Group performs a reassessment of the lease classification, applying the same rules as in the initial classification of the lease contract.

Classification of natural gas and crude oil assets in financial statements

The Group classifies its natural gas and crude oil assets as exploration and evaluation assets, development assets or production assets, relying on its professional judgement.

Once the size of a deposit is confirmed and its production plan is approved, the expenditure on natural gas and crude oil assets is transferred from exploration and evaluation assets to appropriate items of property, plant and equipment or intangible assets classified as development or production assets.

The decision to present natural gas and crude oil assets in the financial statements under development assets or production assets is made taking into account all conditions and circumstances related to the upstream project and the subsequent production from the field.

For information on accounting policies concerning natural gas and crude oil assets, see Note 7.11. For presentation and details of those assets in these financial statements, see Note 13.2.

6. Change of information presented in previous reporting periods and change of accounting policies

The Group recorded no material changes of estimated amounts reported in prior periods, where such changes would have a material effect on the current reporting period.

7. Accounting policies

These consolidated financial statements have been prepared in accordance with the historical cost principle, with the exception of those financial instruments which are measured at fair value.

The key accounting policies applied by the Group are presented below.

7.1 Consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent and financial statements of its subsidiaries and jointly-controlled entities, prepared as at December 31st 2018.

All significant balances and transactions between the related entities, including material unrealised profits on transactions, have been eliminated in their entirety. Unrealised losses are eliminated unless they are indicative of impairment.