4. New standards and interpretations

The following new standards, amendments to the existing standards and interpretations have been endorsed by the European Union (the “EU”):

- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: bearer plants* (issued on June 30th 2014), effective for annual periods beginning on or after January 1st 2016,
- Amendments to IFRS 11 *Joint Arrangements: accounting for acquisitions of interests in joint operations* (issued on May 6th 2014), effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets: clarification of acceptable methods of depreciation and amortisation* (issued on May 12th 2014), effective for annual periods beginning on or after January 1st 2016,
- Amendments introduced as part of the Annual Improvements cycle 2012–2014 (issued on September 25th 2014), effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 1 *Presentation of Financial Statements: disclosures* (issued on December 18th 2014), effective for annual periods beginning on or after January 1st 2016,
- Amendments to IAS 27 *Separate Financial Statements: equity method in separate financial statements* (issued on August 12th 2014), effective for annual periods beginning on or after January 1st 2016,
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, and IAS 28 *Investments in Associates and Joint Ventures: investment entities: applying the consolidation exception* (issued on December 18th 2014), effective for annual periods beginning on or after January 1st 2016;
- IFRS 15 *Revenue from Contracts with Customers* (issued on May 28th 2014), including amendments to IFRS 15 *Effective date* of IFRS 15 (issued on September 11th 2015), effective for annual periods beginning on or after January 1st 2018,
- IFRS 9 *Financial Instruments* (issued on July 24th 2014), effective for annual periods beginning on or after January 1st 2018.

New standards, amendments to the existing standards and interpretations which have not been endorsed by the European Union:

- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – pursuant to the European Commission’s decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version; effective for annual periods beginning on or after January 1st 2016,
- IFRS 16 Leases (issued on January 13th 2016), effective for annual periods beginning on or after January 1st 2019,
- Amendments to IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: sale or contribution of assets between an investor and its associate or joint venture* (issued on September 11th 2014) – work on approval of the amendments has been postponed by the EU for an indefinite term; thus, the effective date of the amendments has been postponed by the IASB for an indefinite term;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (issued on January 19th 2016), effective for annual periods beginning on or after January 1st 2017;

- Amendments to IAS 7 *Disclosure Initiative* (issued on January 29th 2016), effective for annual periods beginning on or after January 1st 2017,

- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on April 12th 2016), effective for annual periods beginning on or after January 1st 2018,

- Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions* (issued on June 20th 2016), effective for annual periods beginning on or after January 1st 2018,

- Amendments to IFRS 4 *Applying* IFRS 9 Financial Instruments with IFRS 4 *Insurance Contracts* (issued on September 12th 2016), effective for annual periods beginning on or after January 1st 2018,

- Amendments introduced as part of the Annual Improvements cycle 2014–2016 (issued on December 8th 2016) – amendments to IFRS 12 and IFRS 1, effective for annual periods beginning on or after January 1st 2017, and amendments to IAS 28, effective for annual periods beginning on or after January 1st 2018,

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (issued on December 8th 2016), effective for annual periods beginning on or after January 1st 2018,

- Amendments to IAS 40 *Transfer of Investment Property* (issued on December 8th 2016), effective for annual periods beginning on or after January 1st 2018.

The Group has not elected to early adopt any of the standards, interpretations, or amendments endorsed by the EU which were not effective as at December 31st 2016.
The Management Board's analysis and preliminary assessment of the impact of the new and amended standards on the Group's accounting policies and future financial statements covered in particular the effect of the new IFRS 9, IFRS 15 and IFRS 16, as their application may result in changes to the Group's accounting and financial reporting policies in 2017–2019.

IFRS 9 *Financial Instruments*

The new IFRS 9 removes the categories of financial assets under IAS 39 and introduces classification of instruments as measured at fair value (fair value through profit or loss – FVTPL, or fair value through other comprehensive income – FVTOCI) or at amortised cost.

IFRS 9 introduces a new impairment model based on expected loss, and new guidelines for hedge accounting, designed to simplify the existing solutions and better reflect risk management rules.

The preliminary assessment of financial assets in terms of their classification under IFRS 9 has shown that most assets currently recognised as loans and receivables (including trade receivables and cash) will continue to be measured at amortised cost. The Group is also analysing whether a separate business model should be identified with respect to receivables covered by factoring arrangements, which could require that such receivables be measured at FVTPL. This change, however, is not expected to have any material effect on the valuation of this portfolio at the time of initial application of IFRS 9, that is, in the period beginning on January 1st 2018.

As regards impairment, currently the Group recognises only losses incurred, mostly based on individual testing of assets, so the requirement to recognise expected losses will have a one-off effect on retained earnings upon initial application of IFRS 9. The Management Board is considering application of the simplifications and practical expedients permitted under IFRS 9 in this respect.

With respect to hedge accounting, the Management Board believes that the current hedging relationships can be maintained after implementation of the new standard, however hedge accounting documentation and requirements relating to hedge effectiveness testing will require appropriate adjustments.

After an analysis of risks and benefits related to the application of hedge accounting solutions set out in IFRS 9 is completed, the Management Board will select a date for the adoption of the required solutions.

Since work on the implementation of IFRS 9 is still under way, it is not possible to fully and reliably assess the impact of the changes, and therefore the Group has not disclosed their quantitative effect on its future financial results.

IFRS 15 *Revenue from Contracts with Customers* and clarifications to IFRS 15

IFRS 15 *Revenue from Contracts with Customers*, which is to replace IAS 18, IAS 11 and the related interpretations, establishes in a systematic way the principles for recognition of revenue from contracts with customers. The standard introduces, among other things, a single five-step model for revenue recognition, applicable to all contracts with customers and based on the identification of performance obligations under a contract and allocation of transaction revenue to such obligations. IFRS 15 also clarifies how variable consideration should be estimated and how to determine whether a contract includes a financing arrangement, and differentiates between recognition of performance obligations under a contract as satisfied over time or satisfied at a certain point in time.

The clarifications to IFRS 15 provide additional information and explanations concerning key assumptions adopted in IFRS 15. Besides additional clarifications, exemptions and simplifications for first-time adopters were also introduced.

The Group has started an analysis of the impact of IFRS 15 but has not decided on the implementation method (fully retrospective or modified retrospective) yet.

The identified transactions and economic events that may be affected to any extent by the changes to recognition principles under the new regulations will be subject to further analysis in terms of potential differences in revenue recognition. The next phase of the IFRS 15 impact assessment will include : i) identification of performance obligations (e.g. multiple performance partnership agreements, fuel and oil supply contracts with wholesalers, comprehensive service contracts for the supply of products and services related to infrastructural and mining projects, or contracts on transport and logistics services), ii) estimation of the variable consideration (e.g. volume discounts, post-sale awards in fuel and oil supply contracts), and iii) separation of lease components from service contracts, and accounting for transactions as sale or exchange of non-cash assets where there is a production imbalance.

On the basis of the preliminary assessment and given the limited scale of transactions in the case of which different revenue recognition may be required under the new regulations, the Group believes that the adoption of IFRS 15 should not have a material effect on the revenue figure disclosed in the consolidated financial statements at the time of the standard's initial application, i.e. in the period beginning on January 1st 2018.

Since the Group is currently implementing IFRS 15, as at December 31st 2016 it was not possible to reliably estimate the impact of its application on the Group's financial results.

IFRS 16 *Leases*

The new IFRS 16 Leases establishes principles for the recognition, measurement, presentation and disclosure of leases. The new standard will abolish the classification of leases as operating and finance leases under IAS 17, and will provide a single lessee accounting model (for detailed accounting policies and estimates related to finance and operating leases as currently recognised, see Notes **16.2**, **23.4.1** and **23**).

In the opinion of the Management Board, as at December 31st 2016, a significant number of operating lease, finance lease, lending-for-use, rental and lease agreements to which Group companies are parties may be classified as leases within the meaning of IFRS 16. Those agreements were executed in both of the Group's reporting segments and provide for: lease of land, warehouse or office space, rental of various vehicles (including rolling stock, car fleets, ships, barges and tankers) and fuel terminals, as well as production plant and machinery and office equipment.

The Group has performed a general preliminary analysis of the contracts that meet the definition of a lease under IFRS 16, and expects a material increase in the amounts of lease assets and liabilities (especially related to lease of vehicles in the downstream segment) in the consolidated statement of financial position following application of the new regulations, i.e. after January 1st 2019.

To make a preliminary assessment of the potential impact on the Group of the new accounting regulations on lease agreements, it is necessary to consider the minimum future payments under operating leases, presented in **Note 23.4.1** (Undisclosed liabilities under operating lease agreements). The amount of minimum discounted future payments represents an estimation of how the liabilities would have increased if the standard had been applied as at December 31st 2016. It should be noted, however, that recognition of the assets and liabilities will be different than prescribed for operating leases under the previously applicable IAS 17. At present, lease payments are usually accounted for on a straight-line basis. It is expected that following the changes resulting from implementation of IFRS 16, lease assets presented in the consolidated statement of financial position will continue to be accounted for on a straight-line basis, while lease liabilities will be accounted for using the effective interest rate, which will result in increased charges in the initial periods following execution of or amendment to a lease agreement, and their reduction over time.

The Group has not prepared a detailed simulation of changes to be included in the financial statements for the period of initial application of IFRS 16, that is after January 1st 2019, but is planning to perform appropriate analyses and calculations in 2017–2018.