



# Good Petroleum (International) Limited

Consolidated Financial  
Statements

31 December 2019



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## Abbreviations and key

The following styles of abbreviation are used in this set of IFRS Illustrative Financial Statements:

IAS 33.41	International Accounting Standard No. 33, paragraph 41
IAS 1.BC13	International Accounting Standard No. 1, Basis for Conclusions, paragraph 13
IFRS 2.44	International Financial Reporting Standard No. 2, paragraph 44
SIC 29.6	Standing Interpretations Committee Interpretation No. 29, paragraph 6
IFRIC 4.6	IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee) Interpretation No. 4, paragraph 6
IFRS 9.IG.G.2	International Financial Reporting Standard No. 9 – Guidance on Implementing IFRS 9 Section G: Other, paragraph G.2
IAS 32.AG3	International Accounting Standard No. 32 – Appendix A – Application Guidance, paragraph AG3
Commentary	The commentary explains how the requirements of IFRS have been implemented in arriving at the illustrative disclosure
GAAP	Generally Accepted Accounting Principles/Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC))
SIC	Standing Interpretations Committee

# Introduction

This publication contains an illustrative set of consolidated financial statements for Good Petroleum (International) Limited (Good Petroleum) and its subsidiaries (the Group) that is prepared in accordance with International Financial Reporting Standards (IFRS). The Group is a fictitious, large publicly listed oil and gas entity whose activities include the exploration for, and development and production of oil and gas, and the refining of petroleum products. All its operations are located in Petroland (a fictitious country). The presentation currency of the Group is the US dollar.

## Objective

This set of illustrative financial statements is one of many prepared by EY to assist you in preparing your own financial statements. The illustrative financial statements are intended to reflect transactions, events and circumstances that we consider to be most common to entities in the oil and gas sector and to illustrate IFRS disclosures specific to entities in the oil and gas sector. Therefore, some common transactions and their disclosures have been deliberately omitted or simplified because they are illustrated in other EY illustrative financial statement publications, such as [Good Group \(International\) Limited 2019](#). We refer readers to these other publications for a greater understanding of other presentation and disclosure requirements that are not specific to the oil and gas sector.

Accounting for extractive activities is complex, with a variety of accounting policy choices available to oil and gas entities for transactions in the exploration and evaluation phase. Moreover, the lack of specific guidance for certain transactions and arrangements presents the sector with a challenge to produce useful financial statements through effective presentation and disclosure. It is key to provide additional disclosures to explain any unusual circumstances faced by an oil and gas entity. In addition, accounting policy choices made by an entity need to be explained to aid the reader in comparing entities in the oil and gas sector.

For illustrative purposes only, some disclosures have been provided even though they may not be relevant or material for the Group. We strongly encourage entity-specific presentation and disclosures. These illustrative financial statements are therefore only meant to serve as a useful reference.

## How to use these illustrative financial statements to prepare entity-specific disclosures

**Users of this publication are encouraged to prepare entity-specific disclosures, for which these illustrative financial statements may serve as a useful reference. Transactions and arrangements other than those addressed by the Group may require additional disclosures. It should be noted that the illustrative financial statements of the Group are not designed to satisfy any stock market or country-specific regulatory requirements, nor is this publication intended to reflect disclosure requirements that apply mainly to regulated or specialised industries.**

Notations shown on the right-hand margin of each page are references to IFRS paragraphs that describe the specific disclosure requirements. Commentaries are provided to explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. For a more comprehensive list of disclosure requirements, refer to EY's [Online International GAAP® Disclosure Checklist](#). If questions should arise as to the IFRS requirements, it is essential to refer to the relevant source material and, where necessary, to seek appropriate professional advice.

We hope you will find this a useful guide when preparing your next set of IFRS-based financial statements. If you require any further information on matters included in this publication, please contact your nearest EY oil and gas professional.

# Introduction *continued*

## Improving disclosure effectiveness

Terms such as 'disclosure overload' and 'cutting the clutter', and more precisely 'disclosure effectiveness' describe a problem in financial reporting that has become a priority issue for the International Accounting Standards Board (IASB or Board), local standard setters, and regulatory bodies. The growth and complexity of financial statement disclosure is also drawing significant attention from financial statement preparers and, most importantly, the users of financial statements.

Considering the purpose, activities and operations of *Good Petroleum* for the year ended 31 December 2019, the ordering of the notes is somewhat different from the structure suggested in paragraph 114 of IAS 1. The notes are organised according to their nature and perceived importance. The ordering of the notes is based on eight different notes sections which are summarised in the following table:

Sections	Comprising the following notes:
1. Corporate and group information	<ul style="list-style-type: none"> <li>▶ Corporate information (<a href="#">Note 1.1</a>)</li> </ul>
2. Basis of preparation and other significant accounting policies	<ul style="list-style-type: none"> <li>▶ Basis of preparation (<a href="#">Note 2.1</a>)</li> <li>▶ Basis of consolidation (<a href="#">Note 2.2</a>)</li> <li>▶ Significant accounting judgements, estimates and assumptions (<a href="#">Note 2.3</a>)</li> <li>▶ Changes in accounting policies and disclosures (<a href="#">Note 2.4</a>)</li> <li>▶ Summary of significant accounting policies not covered in other sections (below) (<a href="#">Note 2.5</a>)</li> </ul>
3. Results for the year	<ul style="list-style-type: none"> <li>▶ Segment information (<a href="#">Note 3.1</a>)</li> <li>▶ Operating profit/loss (<a href="#">Note 3.2</a>)</li> <li>▶ Revenue from contracts with customers (<a href="#">Note 3.3</a>)</li> <li>▶ Income tax (<a href="#">Note 3.4</a>)</li> <li>▶ Earnings per share (<a href="#">Note 3.5</a>)</li> <li>▶ Dividends paid and proposed (<a href="#">Note 3.6</a>)</li> </ul>
4. Invested capital	<ul style="list-style-type: none"> <li>▶ Oil and gas exploration and evaluation assets (<a href="#">Note 4.1</a>)</li> <li>▶ Oil and gas properties (<a href="#">Note 4.2</a>)</li> <li>▶ Other property, plant and equipment (<a href="#">Note 4.3</a>)</li> <li>▶ Other intangible assets and goodwill (<a href="#">Note 4.4</a>)</li> <li>▶ Impairment losses (<a href="#">Note 4.5</a>)</li> <li>▶ Provisions (<a href="#">Note 4.6</a>)</li> <li>▶ Capital commitments and other contingencies (<a href="#">Note 4.7</a>)</li> </ul>
5. Capital and debt structure	<ul style="list-style-type: none"> <li>▶ Issued capital (<a href="#">Note 5.1</a>)</li> <li>▶ Capital management (<a href="#">Note 5.2</a>)</li> <li>▶ Financial instruments, including interest bearing loans and borrowings and financial instruments and financial risk management objectives and policies (<a href="#">Note 5.3</a>)</li> <li>▶ Changes in liabilities arising from financing activities (<a href="#">Note 5.4</a>)</li> <li>▶ Leases (<a href="#">Note 5.5</a>)</li> </ul>
6. Working capital	<ul style="list-style-type: none"> <li>▶ Cash and short-term deposits (<a href="#">Note 6.1</a>)</li> <li>▶ Trade and other receivables (<a href="#">Note 6.2</a>)</li> <li>▶ Inventories (<a href="#">Note 6.3</a>)</li> <li>▶ Trade payables and accrued liabilities (<a href="#">Note 6.4</a>)</li> </ul>
7. Group structure	<ul style="list-style-type: none"> <li>▶ Interests in joint arrangements (<a href="#">Note 7.1</a>)</li> <li>▶ Business combinations (<a href="#">Note 7.2</a>)</li> <li>▶ Group information and related party disclosures (<a href="#">Note 7.3</a>)</li> </ul>
8. Other	<ul style="list-style-type: none"> <li>▶ Events after the reporting period (<a href="#">Note 8.1</a>)</li> <li>▶ Standards issued but not yet effective (<a href="#">Note 8.2</a>)</li> </ul>

## Introduction *continued*

### Improving disclosure effectiveness *continued*

The order and grouping of notes reflects how those charged with governance of the Group viewed and managed the Group during the current period. This order and grouping also reflects the views of key stakeholders that we engaged with in the formulation of this year's illustrative financial statements.

By structuring the notes according to their nature and perceived importance, users may find it easier to extract the relevant information. A majority of the significant accounting policies, judgements, key estimates and assumptions have been placed within the same note as the related qualitative and quantitative disclosures to provide a more holistic discussion for users of the financial statements. In addition, consistent with common market trends, the Group has moved various accounting policies from [Note 2.5](#) and located these with the related qualitative and quantitative notes. For example, the accounting policy note relating to joint arrangements now resides with the qualitative and quantitative information on joint arrangements in [Note 7.1](#).

**Users of this publication are encouraged to prepare entity-specific disclosures, for which these illustrative financial statements may serve as a useful reference. Transactions and arrangements other than those applicable to the Group may require additional disclosures. It should be noted that the illustrative financial statements of the Group are not designed to satisfy any stock market or country-specific regulatory requirements.**

Applying the concept of materiality requires judgement, in particular, in relation to matters of presentation and disclosure. Inappropriate application of the concept may be another cause of the perceived disclosure problem. IFRS provides a set of minimum disclosure requirements, which, in practice, are often applied without consideration of the information's relevance for the specific entity. That is, if the transaction or item is immaterial to the entity, then it is not relevant to users of financial statements, and IFRS does not require that item to be disclosed. (IAS 1.31) If immaterial information is included in the financial statements, the amount of information can potentially reduce the transparency and usefulness of the financial statements as the material, and thus relevant information, loses prominence. IFRS Practice Statement 2 *Making Materiality Judgements* provides practical guidance and examples that companies may find helpful in deciding whether information is material. Entities are encouraged to consider it when making materiality judgements.

**As explained above, the primary purpose of these financial statements is to illustrate how the most commonly applicable disclosure requirements can be met. Therefore, they include disclosures that may, in practice, be deemed not material to Good Petroleum. It is essential that entities consider their entity-specific circumstances when determining which disclosures to include. Entities should not consider these financial statements as guidance in making the materiality assessment, and they must always be used together with tailoring efforts to ensure that an entity's financial statements reflect and portray the entity's specific circumstances. Only then will the financial statements succeed in achieving their ultimate goal, namely, the provision of decision-useful financial information.**

For more guidance on how to improve disclosure effectiveness, please refer to the publication [Applying IFRS - Enhancing communication effectiveness \(February 2017\)](#) or [Good Group \(International\) Limited - Alternative Format](#).

### Other illustrative financial statements

We provide a number of other illustrative financial statements which are industry-specific or address specific circumstances that you may consider. The entire series of illustrative financial statements comprise:

- ▶ Good Group (International) Limited
- ▶ Good Group (International) Limited - *Alternative Format*
- ▶ Good Group (International) Limited – Illustrative interim condensed consolidated financial statements
- ▶ Good First-time Adopter (International) Limited
- ▶ Good Insurance (International) Limited
- ▶ Good Investment Fund Limited (Equity)
- ▶ Good Investment Fund Limited (Liability)
- ▶ Good Real Estate Group (International) Limited
- ▶ Good Mining (International) Limited
- ▶ Good Bank (International) Limited
- ▶ Good Life Insurance (International) Limited
- ▶ Good General Insurance (International) Limited

# Introduction *continued*

## International Financial Reporting Standards

The abbreviation IFRS is defined in paragraph 5 of the *Preface to International Financial Reporting Standards* to include "standards and interpretations approved by the IASB, and International Accounting Standards (IASs) and Standing Interpretations Committee interpretations issued under previous Constitutions". This is also noted in paragraph 7 of IAS 1 and paragraph 5 of IAS 8. Thus, when financial statements are described as complying with IFRS, it means that they comply with the entire body of pronouncements sanctioned by the IASB. This includes the IASs, IFRSs and Interpretations originated by the IFRS Interpretations Committee (formerly the SIC).

## International Accounting Standards Boards (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation (an independent, not-for-profit private sector organisation working in the public interest). The IASB members are responsible for the development and publication of IFRSs, including the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee.

In fulfilling its standard-setting duties, the IASB follows a due process, of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component.

## The IFRS Interpretations Committee (Interpretations Committee)

The Interpretations Committee is a committee appointed by the IFRS Foundation Trustees that assists the IASB in establishing and improving standards in financial accounting and reporting for the benefit of users, preparers and auditors of financial statements.

The Interpretations Committee addresses issues of reasonably widespread importance, rather than issues of concern to only a small set of entities. These include any newly identified financial reporting issues not addressed in IFRS. The Interpretations Committee also advises the IASB on issues to be considered in the annual improvements to IFRS project.

## IFRS as at 30 September 2019

As a general approach, these illustrative financial statements do not early-adopt standards, amendments or interpretations before their effective date.

The standards and interpretations applied in these illustrative financial statements are those that were in issue as at 30 September 2019 and effective for annual periods beginning on or after 1 January 2019.

For details and illustrative disclosures of other standards and interpretations issued but not yet effective that may apply to your particular entity, refer to either the commentary sections contained herein or to [Good Group \(International\) Limited 2019 illustrative financial statements](#). It is important to note that these illustrative financial statements will require continual updating as standards are issued and/or revised.

Users of this publication are cautioned to check that there has been no change in requirements of IFRS between 30 September 2019 and the date on which their financial statements are authorised for issue. In accordance with IAS 8.30, specific disclosure requirements apply for standards and interpretations issued but not yet effective (see [Note 8.2](#) of these illustrative financial statements). Furthermore, if the financial year of an entity is other than the calendar year, new and revised standards applied in these illustrative financial statements may not be applicable. For example, the Group has adopted IFRS 16 in its 2019 illustrative financial statements. An entity with a financial year that commences from, for example, 1 July and ends on 30 June would have to adopt the standard in its annual financial statements beginning on 1 July 2019. Therefore, the standard would not have been applicable in the financial statements of an entity with a year-end of 30 June 2019, unless it voluntarily chose to early adopt the standard.

For an overview of the upcoming changes in standards and interpretations, please refer to our quarterly *IFRS Update* publication.

## Introduction *continued*

### Accounting policy choices

Accounting policies are broadly defined in IAS 8 and include not just the explicit elections provided for in some standards, but also other conventions and practices that are adopted in applying principle-based standards.

In some cases, IFRS permit more than one accounting treatment for a transaction or event. Preparers of financial statements should select the accounting policies that are most relevant to their business and circumstances.

IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, events and/or conditions, unless another standard specifically requires or permits categorisation of items for which different policies may be appropriate. Where a standard requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently. Changes in accounting policies should only be made if required by a standard or interpretation, or if the change results in the financial statements providing reliable and more relevant information.

In this publication, where a choice is permitted under IFRS, the Group has adopted one of the treatments as appropriate to the circumstances of the Group. In these cases, the commentary provides details of which policy has been selected and the reasons for this policy selection.

### Financial review by management

Many entities present a financial review by management that is outside the financial statements. IFRS does not require the presentation of such information, although IAS 1.13 gives a brief outline of what may be included in such a report. IFRS Practice Statement 1, *Management Commentary*, provides a non-binding framework for the presentation of a management commentary that relates to financial statements prepared in accordance with IFRS. If an entity decides to follow the guidance in the Practice Statement, management is encouraged to explain the extent to which the Practice Statement has been followed. A statement of compliance with the Practice Statement is permitted only if it is followed in its entirety. The content of a financial review by management is often determined by local market requirements or issues specific to a particular jurisdiction.

No financial review by management has been included for the Group.

### Auditor's report

Good Petroleum (International) Limited is a limited company incorporated and domiciled in Petroland and whose shares are publicly traded. Financial statements of that category of entity are usually subject to mandatory audit either under International Standards on Auditing (ISA) or local audit standards and auditor's report should be disclosed together with the annual financial statements. However, this publication is not intended to provide guidance on the application of ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* or the specific requirements of individual jurisdictions. Hence, an illustrative auditor's report on the consolidated financial statements of Good Petroleum (International) Limited has not been included.

### Changes in the 2019 edition of *Good Petroleum (International) Limited* annual financial statements

The standards and interpretations listed below have become effective for annual periods beginning on or after 1 January 2019. While the list of new standards is provided below, not all of these new standards will have an impact on these illustrative financial statements. To the extent these illustrative financial statements have changed due to changes in standards and interpretations, we have disclosed the impact of those changes in [Note 2.4](#). Further supplementary disclosures are set out in [Good Group \(International\) Limited 2019 illustrative financial statements](#).



## Changes to IFRS

The following new standards and amendments became effective for annual periods beginning on or after 1 January 2019:

- ▶ IFRS 16 *Leases*
- ▶ IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*
- ▶ Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- ▶ Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
- ▶ Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*
- ▶ Annual IFRS Improvement Process
  - ▶ IFRS 3 *Business Combinations - Previously held Interests in a joint operation*
  - ▶ IFRS 11 *Joint Arrangements - Previously held Interests in a joint operation*
  - ▶ IAS 12 *Income Taxes - Income tax consequences of payments on financial instruments classified as equity*
  - ▶ IAS 23 *Borrowing Costs - Borrowing costs eligible for capitalisation*

# **Good Petroleum (International) Limited**

**Consolidated Financial Statements**

**31 December 2019**

# Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

		IAS 1.10(b) IAS 1.51(c)		
	<b>31 December 2019</b>	<b>31 December 2018</b>		
	<b>US\$ million</b>	<b>US\$ million</b>		
<b>Notes</b>		IAS 1.51(d)(e)		
Revenue from contracts with customers	3.3	3,828	2,917	IAS 1.82(a) IFRS 15.113(a)
Cost of sales		(1,574)	(1,219)	IAS 1.103
<b>Gross profit</b>		<b>2,254</b>	<b>1,698</b>	IAS 1.85, IAS 1.103
Other operating income		52	65	IAS 1.103
Share of profit of a joint venture	7.1	33	25	IAS 1.82(c)
Selling and distribution expenses	3.2	(120)	(85)	IAS 1.99, IAS 1.103
General and administrative expenses	3.2	(198)	(205)	IAS 1.99, IAS 1.103
Other operating expenses	3.2	(80)	(34)	IAS 1.99, IAS 1.103
<b>Operating profit</b>		<b>1,941</b>	<b>1,464</b>	IAS 1.85, IAS 1.BC55-56
Finance income		24	25	
Finance costs		(100)	(40)	IAS 1.82(b), IFRS 7.20
<b>Profit before income tax</b>		<b>1,865</b>	<b>1,449</b>	IAS 1.85
Income tax expense	3.4	(782)	(529)	IAS 1.82(d), IAS 12.77
<b>Profit for the year</b>		<b>1,083</b>	<b>920</b>	IAS 1.81A(a)
<b>Other comprehensive income</b>		–	–	IAS 1.81A(b)
<b>Total comprehensive income</b>		<b>1,083</b>	<b>920</b>	IAS 1.81A(c)
<b>Attributable to:</b>				
Equity holders of the parent		<b>1,062</b>	<b>905</b>	IAS 1.81B(a)(ii)
Non-controlling interests		<b>21</b>	<b>15</b>	IAS 1.81B(a)(i)
		<b>1,083</b>	<b>920</b>	
Basic and diluted earnings per ordinary share (US\$ per share)	3.5	0.70	0.96	IAS 33.66

# Consolidated statement of profit and loss and other comprehensive income *continued*

## Commentary

The above statement is an illustration of an entity that elects to present a single statement of profit or loss and other comprehensive income. An alternative would be to present a separate statement of profit or loss and a separate statement of other comprehensive income. The Group does not have any items of other comprehensive income. The nil line item for other comprehensive income is included for illustrative purposes only. The Group may have omitted the line item as this is nil and, hence, not material. Please refer to [Good Group \(International\) Limited 2019 illustrative financial statements](#) for additional details and examples of items to be included in other comprehensive income.

IAS 1 suggests titles for the primary financial statements, such as statement of profit or loss and other comprehensive income and statement of financial position. However, entities are permitted to use other titles, e.g., income statement or balance sheet. The Group applies the titles suggested in IAS 1. IAS 1.10

IFRS 15 only applies to a subset of total revenue (i.e., revenue from contracts with customers) and requires revenue recognised from contracts with customers to be disclosed separately from other sources of revenue in the notes, unless presented separately in the statement of comprehensive income or statement of profit or loss. IFRS 15.113(a)

Good Petroleum, based on its activities, does not have other sources of revenue. All revenue earned by the Group meets the definition of revenue from contracts with customers. If the Group had other sources of revenue, this would have been presented separately from revenue from contracts with customers and the Group would also have presented a total revenue line item either on the face of the income statement or within the notes.

IFRS 15 defines revenue as "income arising in the course of an entity's ordinary activities", but it excludes some revenue contracts from its scope (e.g., leases). IFRS 15 does not explicitly require an entity to use the term 'revenue from contracts with customers'. Therefore, entities may use different terminology in their financial statements to describe revenue arising from transactions that are within the scope of IFRS 15. However, entities should ensure the terms used are not misleading and allow users to distinguish revenue from contracts with customers from other sources of revenue.

Cost of sales includes costs of inventories recognised as expense. IAS 2 requires that when inventories are sold, the carrying amount of those inventories must be recognised as an expense in the period in which the related revenue is recognised. IAS 2.34

IAS 1 requires expenses to be analysed either by nature or by their function in the statement of profit or loss, whichever provides information that is reliable and more relevant. If expenses are analysed by function, information about the nature of expenses must be disclosed in the notes. The Group has presented the analysis of expenses by function. IAS 1.99

The Group presents operating profit in the statement of profit or loss and other comprehensive income, although not required to do so by IAS 1. The terms 'operating profit' or 'operating income' are not defined in IFRS. IAS 1.BC56 states that the IASB recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. The entity should ensure the amount disclosed is representative of activities that would normally be considered to be operating. For instance, IAS 1 sets out that "it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses". In practice, other titles, such as earnings before interest and taxation (EBIT), are sometimes used to refer to an operating result. Such subtotals are subject to the new guidance included in IAS 1. IAS 1.BC56

For instance, IAS 1 sets out that "it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses". In practice, other titles, such as earnings before interest and taxation (EBIT), are sometimes used to refer to an operating result. Such subtotals are subject to the new guidance included in IAS 1. IAS 1.BC56

The Group has presented its share of profit of a joint venture using the equity method under IAS 28 in 'operating profit'. IAS 1 requires 'share of the profit or loss of associates and joint ventures accounted for using the equity method' to be presented in a separate line item on the face of the statement profit or loss. Regulators or standard-setters in certain jurisdictions recommend or accept the share of the profit/loss of equity method investees being presented with reference to whether the operations of the investees are closely related to that of the reporting entity. This may result in the share of profit or loss of certain equity method investees being included in the operating profit, while share of profit/loss of other equity method investees being excluded from operating profit. In other jurisdictions, regulators or standard-setters believe that IAS 1 requires that share of profit or loss of equity method investees to be presented as one line item (or, alternatively, as two or more adjacent line items, with a separate line for the sub-total). This may cause diversity in practice. IAS 1.82(c)

IAS 33 paragraph 66 requires an entity to present in the statement of comprehensive income, basic and diluted earnings per share (EPS) for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity, and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. The requirements are also for an entity to present basic and diluted EPS with equal prominence for all periods presented. If there are discontinued operations, IAS 33 requires presentation of basic and diluted EPS for discontinued operations either on the face of the statement of profit or loss or in the notes to the financial statements. IAS 33.68



## Commentary (continued)

IAS 1 requires that the statement of profit or loss includes line items that present the impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with IFRS 9. The Group did not present its impairment losses determined in accordance with IFRS 9 separately in the statement of profit or loss as the amounts are not considered material. Whilst this may not be unusual for oil and gas entities, where the amounts are material, they should be disclosed. IAS 1.82(ba)

IFRS 16 requires a lessee to present in the statement of profit or loss, the interest expense on lease liabilities separately from the depreciation charge for the right-of-use asset. The interest expense on the lease liabilities is a component of finance costs, which IAS 1 requires to be presented separately in the statement of profit or loss. Consistent with this requirement, the Group presented interest expense on lease liabilities under 'finance costs' and the depreciation charge on the right-of-use asset under 'cost of sales' and 'general and administrative expenses'. IFRS 16.49 IAS 1.82(b)

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# Consolidated statement of financial position

as at 31 December 2019

		2019	2018	
		US\$ million	US\$ million	IAS 1.10(a) IAS 1.49, IAS 1.51(b)(c) IAS 1.51(d)(e)
	Notes			
<b>Assets</b>				
<b>Non-current assets</b>				
				IAS 1.60
Exploration and evaluation assets				IFRS 6.15
	4.1	759	501	IFRS 6.23
Oil and gas properties	4.2	4,943	3,706	IAS 1.54(a)
Other property, plant and equipment	4.3	238	227	IAS 1.54(a)
Goodwill	4.4	42	17	IAS 1.54(c)
Other intangible assets	4.4	11	7	IAS 1.54(c)
Right-of-use assets	5.5	112	–	IFRS 16.47
Investment in joint venture	7.1	114	81	IAS 1.54(e), IAS 28.38
Deferred tax assets				IAS 1.54(o)
	3.4	116	57	IAS 1.56
<b>Total non-current assets</b>		<b>6,335</b>	<b>4,596</b>	
<b>Current assets</b>				
				IAS 1.60, IAS 1.66
Inventories	6.3	93	88	IAS 1.54(g)
Receivables and contract assets				IAS 1.54(h), IFRS 15.105
	6.2	618	599	IFRS 7.8(c)
Derivative financial assets	5.3	22	20	IAS 1.54(d), IFRS 7.8(a)
Cash and short-term deposits	6.1	458	539	IAS 1.54(i)
<b>Total current assets</b>		<b>1,191</b>	<b>1,246</b>	
<b>Total assets</b>		<b>7,526</b>	<b>5,842</b>	
<b>Equity and liabilities</b>				
<b>Equity</b>				
Issued capital	5.1	1,551	1,551	IAS 1.54(r), IAS 1.78(e)
Retained earnings		3,168	2,435	IAS 1.54(r) IAS 1.78(e)
<b>Equity attributable to equity holders of the parent</b>		<b>4,719</b>	<b>3,986</b>	
Non-controlling interest	7.3	13	13	IAS 1.54(q)
<b>Total equity</b>		<b>4,732</b>	<b>3,999</b>	
<b>Non-current liabilities</b>				
				IAS 1.60,
Interest-bearing loans and borrowings	5.3	603	315	IAS 1.54(m) IFRS 7.8(f), IFRS 16.47(b)
Deferred tax liabilities	3.4	502	386	IAS 1.54(o)
Provisions	4.6	610	373	IAS 1.56 IAS 1.54(l)
<b>Total non-current liabilities</b>		<b>1,715</b>	<b>1,074</b>	
<b>Current liabilities</b>				
				IAS 1.60
Trade payables and accrued liabilities	6.4	589	536	IAS 1.9 IAS 1.54(k)
Taxes and royalties payable		350	166	IAS 1.54(n)
Interest-bearing loans and borrowings	5.3	121	51	IAS 1.54(m) IFRS 7.8(f), IFRS 16.47(b)
Provisions	4.6	19	16	IAS 1.54(l)
<b>Total current liabilities</b>		<b>1,079</b>	<b>769</b>	
<b>Total liabilities</b>		<b>2,794</b>	<b>1,843</b>	
<b>Total equity and liabilities</b>		<b>7,526</b>	<b>5,842</b>	

## Consolidated statement of financial position *continued*

### Commentary

IAS 1 requires an entity to present a statement of financial position at the beginning of the earliest comparative period in the following circumstances: when it applies an accounting policy retrospectively; makes a retrospective restatement of items in its financial statements; or it reclassifies items in its financial statements; and the change has a material effect on the statement of financial position. In these situations, IAS 1 states that an entity must present, at a minimum, three statements of financial position, two of each of the other statements and the related notes. The notes related to the third balance sheet are not required, nor are additional statements of profit or loss and other comprehensive income, changes in equity or cash flows.

IAS 1.10(f)  
IAS 1.40A

IAS 1.40C)

The three statements of financial position include the statement of financial position as at the current annual period year-end, the statement of financial position as at the previous annual period year-end, and the statement of financial position as at the beginning of the previous annual period ('the opening balance sheet', often referred to as the 'third balance sheet').

The Group has not applied new accounting standards retrospectively and therefore has not included a third balance sheet as at 1 January 2018. Refer to [Good Group \(International\) Limited 2019](#) for an illustration of the third balance sheet. In accordance with IAS 1, an additional balance sheet is only required if the adjustment to opening balances is considered to be material.

IAS 1.40A (b)

Refer to [Good Group \(International\) Limited 2019](#) for an example of a statement of financial position at the beginning of the earliest comparative period and its effect on the relevant note disclosures.

In accordance with IAS 1, the Group has presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position. IAS 1 does not require a specific order of the two classifications. The Group has elected to present non-current assets and liabilities before current assets and liabilities. IAS 1 requires entities to present assets and liabilities in order of liquidity when this presentation is reliable and relevant.

IAS 1.60

IFRS 16 requires a lessee to either present in the statement of financial position, or disclose in the notes, the right-of-use assets separately from other assets and lease liabilities separately from other liabilities. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee is required to include right-of-use assets within the same line item that the corresponding underlying assets would be presented if they were owned (e.g., under property, plant and equipment) and it is required to disclose which line items in the statement of financial position include those right-of-use assets. Similarly, if the lessee does not present lease liabilities separately in the statement of financial position, the lessee is required to disclose the line items in the statement of financial position which include those liabilities. The Group presented its 'Right-of-use assets' separately in the statement of financial position. The related lease liabilities were presented in the line item 'Interest-bearing loans and borrowings' split between current and non-current.

IFRS 16.47



# Consolidated statement of changes in equity

for the year ended 31 December 2019

IAS 1.10(c)  
IAS 1.49,  
IAS 1.51(b)(Xc)

	Notes	Attributable to the equity holders of the parent					
		Issued and fully paid shares	Retained earnings	Total	Non-controlling interests	Total equity	
		US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
<b>Balance at 1 January 2018</b>	<u>5.1</u>	<b>836</b>	<b>1,670</b>	<b>2,506</b>	–	<b>2,506</b>	IAS 1.51(d)(Xe)
Profit for the year		–	905	905	15	920	IAS 1.106(d)(Xi)
Other comprehensive income		–	–	–	–	–	IAS 1.106(d)(Xii)
<b>Total comprehensive income</b>		–	<b>905</b>	<b>905</b>	<b>15</b>	<b>920</b>	IAS 1.106(a)
Issue of share capital	<u>5.1</u>	715	–	715	–	715	IAS 1.106(d)(Xiii)
Dividends paid	<u>3.6</u>	–	(140)	(140)	(15)	(155)	IAS 1.106(d)(Xiii), 107
Acquisition of subsidiary	<u>7.2</u>	–	–	–	13	13	
<b>Balance at 31 December 2018</b>	<u>5.1</u>	<b>1,551</b>	<b>2,435</b>	<b>3,986</b>	<b>13</b>	<b>3,999</b>	
<b>Balance at 1 January 2019</b>	<u>5.1</u>	<b>1,551</b>	<b>2,435</b>	<b>3,986</b>	<b>13</b>	<b>3,999</b>	
Profit for the year		–	1,062	1,062	21	1,083	IAS 1.106(d)(Xi)
Other comprehensive income		–	–	–	–	–	IAS 1.106(d)(Xii)
<b>Total comprehensive income</b>		–	<b>1,062</b>	<b>1,062</b>	<b>21</b>	<b>1,083</b>	
Dividends paid	<u>3.6</u>	–	(329)	(329)	(21)	(350)	IAS 1.106(d)(Xiii), 107
<b>Balance at 31 December 2019</b>	<u>5.1</u>	<b>1,551</b>	<b>3,168</b>	<b>4,719</b>	<b>13</b>	<b>4,732</b>	

## Commentary

The Group has not made any adjustments retrospectively. Refer to [Good Group \(International\) Limited 2019](#) for an illustration of a retrospective adjustment on the face of the financial statements. By labelling the comparatives 'Restated', Good Group (International) Limited 2019 illustrates how an entity may supplement the requirements of IAS 8 so that it is clear to the user that adjustments to the amounts in prior financial statements have been reflected in the comparative periods as presented in the current period financial statements.

The Group does not have any items of other comprehensive income. The nil line item for other comprehensive income is included for illustrative purposes only. In practice, the Group may have instead decided to omit the line item as it is nil and, hence, not material. Please refer to [Good Group \(International\) Limited 2019](#) for additional details and examples of items to be included in other comprehensive income.

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# Consolidated statement of cash flows

for the year ended 31 December 2019

	Notes	31 December 2019 US\$ million	31 December 2018 US\$ million	
<b>Cash flows from operating activities</b>				IAS 1.49 IAS 1.51(b)(c) IAS 1.10(d) IAS 1.51(d)(e) IAS 7.10, IAS 7.18(b)
Profit before income tax		1,865	1,449	
Adjustments to reconcile profit before tax to net cash flows:				IAS 7.20(b)
Depreciation, depletion and amortisation	3.2	559	293	
Depreciation of right-of-use assets	5.5	43	–	
Impairment of oil and gas properties	3.2	33	9	
Impairment of exploration and evaluation assets	3.2	5	6	
Reversal of previously impaired exploration and evaluation assets	3.2	(16)	–	
Unsuccessful exploration and evaluation expenditures	4.1	90	75	
(Gain) on sale of oil and gas properties	3.2	(39)	(58)	
(Gain) on sale of exploration and evaluation assets	3.2	(1)	–	
(Gain)/loss on sale of other property, plant and equipment	3.2	(11)	11	
Unrealised gain on derivative financial instruments		(5)	(9)	
Unwinding of discount on decommissioning	4.6	27	28	
Utilisation of decommissioning provision	4.6	(2)	–	
Other non-cash income and expenses		(1)	8	
Finance expense (disclosed in financing activities)		73	12	IAS 7.20(c)
Finance income (disclosed in investing activities)		(24)	(25)	IAS 7.20(c)
Working capital adjustments:				IAS 7.20(a)
Change in receivables and contract assets		(20)	(207)	
Change in inventories		(5)	(3)	
Change in trade and other payables relating to operating activities		122	137	
		<b>2,693</b>	<b>1,726</b>	
Income tax paid		(737)	(678)	IAS 7.35
<b>Net cash flows from operating activities</b>		<b>1,956</b>	<b>1,048</b>	
<b>Cash flows from investing activities</b>				IAS 7.21
Expenditures on exploration and evaluation assets	4.1	(358)	(293)	IAS 7.16(a)
Expenditures on oil and gas assets	4.2	(1,108)	(1,357)	IAS 7.16(a)
Expenditures on other property, plant and equipment	4.3	(1)	(32)	IAS 7.16(a)
Expenditures on other intangible assets	4.4	(5)	(3)	IAS 7.16(a)
Proceeds on disposal of exploration and evaluation assets		23	–	IAS 7.16(b)
Proceeds on disposal of oil and gas properties		109	102	IAS 7.16(b)
Proceeds on disposal of other property, plant and equipment asset:	4.3	23	12	IAS 7.16(b)
Acquisition of a subsidiary, net of cash acquired	7.2	(454)	(68)	IAS 7.39
Interest received		24	25	IAS 7.31
		<b>(1,747)</b>	<b>(1,614)</b>	
<b>Net cash used in investing activities</b>				
<b>Cash flow from financing activities</b>				IAS 7.21
Proceeds from issuance of shares		–	728	IAS 7.17(a)
Proceeds from loans and borrowings	5.4	331	–	IAS 7.17(c)
Payments of loan and borrowings	5.4	(114)	(17)	IAS 7.17(d)
Payment of principal portion of lease liability	5.4	(44)	–	IAS 7.17(e)
Interest paid		(70)	(33)	IAS 7.31
Dividends paid to equity holders of the parent	3.6	(328)	(140)	IAS 7.31
Dividends paid to non-controlling interests	3.6	(22)	(15)	IFRS 12.B10(a)
		<b>(247)</b>	<b>523</b>	
<b>Net cash (used in) from financing activities</b>				
Increase/(decrease) in cash		(38)	(43)	
Cash and cash equivalents, beginning of period		488	531	
<b>Cash and cash equivalents, end of period</b>	<b>6.1</b>	<b>450</b>	<b>488</b>	IAS 7.45

## Consolidated statement of cash flows *continued*

### Commentary

<p>IAS 7 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents its cash flows using the indirect method. For an illustration of the direct method, refer to <a href="#">Appendix 4 of Good Group (International) Limited 2019</a>.</p>	IAS 7.18
<p>The Group has reconciled profit before tax to net cash flows from operating activities. However, a reconciliation from profit after tax is also acceptable under IAS 7.</p>	
<p>IAS 7 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received as cash flows from investing activities and interest paid (including interest on lease liabilities and interest arising from revenue contracts, if there is any) as cash flows from financing activities.</p>	IAS 7.33
<p>IAS 7 states that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Therefore, if an entity adopted a policy of expensing exploration and/or evaluation costs, the related cash flows could not be classified as part of investing activities. Instead, they would need to be classified as part of operating activities. The Group capitalises exploration and evaluation assets in certain situations. Therefore, the related cash flows have been classified as investing cash flows.</p>	IAS 7.16
<p>IFRS 12 requires disclosure of dividends paid to non-controlling interest (NCI) by subsidiaries only where there is a material NCI. While the NCI for the Group is not material to the Group, for illustrative purposes, the dividends paid have been disclosed.</p>	IFRS 12.B10(a)
<p>IAS 7 requires the disclosure of the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency. This is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. In the example of Good Petroleum, there was no cash held in a foreign currency. If there had been, this amount would be presented separately from cash flows from operating, investing and financing activities. This amount would include the differences, if any, had those cash flows been reported at end of period exchange rates. Refer to <a href="#">Good Group (International) Limited 2019</a> for an illustration of how this is presented.</p>	IAS 7.28
<p>IFRS 16 requires that in the statement of cash flows, a lessee classifies the following: cash payments for the principal portion of the lease liability within financing activities; cash payments for the interest portion of the lease liability applying the requirements in IAS 7 for interest paid; and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Non-cash activity (e.g., the initial recognition of the lease at commencement) is required to be disclosed as a supplemental non-cash item in accordance with IAS 7 (see <a href="#">Note 5.5</a>).</p>	IFRS 16.50 IAS 7.31-33 IAS 7.43



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# Notes to the consolidated financial statements

## Section 1. Corporate and group information

### 1.1 Corporate information

The consolidated financial statements of the Group, which comprise Good Petroleum (International) Limited (Good Petroleum, as the parent) and all its subsidiaries, for the year ended 31 December 2019, were authorised for issue in accordance with a resolution of the directors on 28 January 2019. Good Petroleum is a limited company incorporated and domiciled in Petroland whose shares are publicly traded. The registered office is located at 17 Petroville High Street, Petrocity, Petroland.

The principal activities of the Group are exploration, production and refining of crude oil. Information on the Group's parent and other related party relationships is presented in [Note 7.3](#).

*IAS 1.10(e)*

*IAS 1.49*

*IAS 1.51(a), (b), (c)*

*IAS 1.138(c)*

*IAS 10.17*

*IAS 1.138(a)(c)*

*IAS 1.138(b)*



# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies

This section provides information about the overall basis of preparation that the directors consider is useful to be relevant in understanding these financial statements.

### Commentary

The identification of an entity's significant accounting policies is an important aspect of the financial statements. IAS 1 requires the significant accounting policies disclosures to summarise the measurement basis (or bases) used in preparing the financial statements, and the other accounting policies used that are relevant to an understanding of the financial statements. The significant accounting policies disclosed in this note illustrate some of the more commonly applicable accounting policies for oil and gas entities. However, it is essential that entities consider their specific circumstances when determining which accounting policies are significant and therefore need to be disclosed.

IAS 1.117

### 2.1 Basis of preparation

IAS 1.112(a)

#### 2.1.1 Overview

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

IAS 1.16

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in US dollars, and all values are rounded to the nearest million (US\$ million), except where otherwise indicated.

IAS 1.117(a)

IAS 1.51(d)(e)

### Commentary

Entities in certain jurisdictions may be required to comply with IFRS, as approved by local laws and regulations; for example, listed companies in the European Union (EU) are required to comply with IFRS as endorsed by the EU. These financial statements only illustrate compliance with IFRS as issued by the IASB.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

IFRS 10.7

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

IFRS 10.B38

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.



# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.2 Basis of consolidation *continued*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Where the Group's interest is less than 100 per cent, the interest attributable to outside shareholders is reflected in NCI.

IFRS 10.B80  
IFRS 10.B86(a)  
IFRS 10.B99  
IFRS 10.B94

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the NCI, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

IFRS 10.B87  
IFRS 10.B86

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

IFRS 10.B96  
IFRS 10.B98  
IFRS 10.B99

#### 2.2.1 Foreign currencies

The consolidated financial statements are presented in US dollars, which is also the Parent entity's functional currency and presentation currency. The Group does not have any foreign operations.

IAS 1.51(d)

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

IAS 21.21

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss and other comprehensive income.

IAS 21.23(a)  
IAS 21.28

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

IAS 21.23(b)  
IAS 21.23(c)

#### **Significant judgement**

The functional currency for the parent entity and each of its subsidiaries and joint ventures, is the currency of the primary economic environment in which the entity operates. The functional currency of each entity in the Group is the US dollar. Determination of functional currency may involve certain judgements to identify the primary economic environment in which the entity operates. This includes consideration of the currency which influences sales prices, the country whose competitive forces and regulations mainly determine the sale price of its goods and services, and the currency which influences the labour, materials, and other costs of providing goods or services differ.

#### **Commentary**

Many oil and gas entities have found that determining the functional currency of their operations is complicated. Determining the functional currency correctly is important because it will, for example: (1) affect volatility of revenue and operating profit resulting from exchange rate movements; (2) determine whether transactions can be hedged or not; (3) influence the identification of embedded currency derivatives; and (4) may give rise to temporary differences that affect profit or loss.

This disclosure and the commentary is primarily included for illustrative purposes since Good Petroleum conducts all its business in the same country and the same currency.

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.2 Basis of consolidation *continued*

#### 2.2.1 Foreign currencies *continued*

##### Commentary *continued*

While under IAS 21 an entity may select any presentation currency, it does not have a free choice in determining its functional currency. Instead, IAS 21 requires an entity to consider the following factors in determining its functional currency:

IAS 21.9

- a) The currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled)
- b) The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services
- c) The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled)

While the currency referred to in (a) above will often be the currency in which sales prices for its goods and services are denominated and settled, this is not always the case. In the oil and gas sector, the US dollar is often used as the contract or settlement currency in transactions (e.g., crude oil), but the pricing of transactions is often driven by factors unrelated to the US dollar (e.g., global demand). When this is the case, management may conclude that the US dollar is not the currency that mainly influences the sales price.

In the oil and gas sector, which is international in nature, it is often difficult to determine the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. Therefore, (b) above will often prove to be inconclusive.

It will generally be fairly straightforward to identify the currency that mainly influences an entity's key inputs (e.g., (c) above). In developing countries, an entity will often need to import a significant proportion of its key inputs (e.g., fuel, equipment and expatriate workers) and even local inputs in an economy with a high inflation rate will often be linked to the US dollar. In such a case, the local currency is less likely to be the main currency that influences an entity's key inputs. In most developed countries, however, the inputs tend to be denominated in the local currency, although some inputs (e.g., hire of capital equipment such as drilling rigs) may be denominated in US dollars.

When the factors (a) to (c) above are mixed, as they often are in practice, and the functional currency is not obvious, management should use "its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions". If the above factors are inconclusive, then an entity should also consider the following factors:

- ▶ Currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated
- ▶ Currency in which receipts from operating activities are usually retained
- ▶ Functional currency of the reporting entity that has the foreign operation as its subsidiary, branch, associate or joint venture

IAS 21.10

IAS 21.11

Even after considering the above factors the functional currency of an oil and gas entity may still not be obvious because, for example, its revenue is denominated in US dollars while virtually all expenses are denominated in its local currency. Nevertheless, in that situation, management may conclude that revenue, while denominated in US dollars, is in fact, influenced by a basket of currencies. It is therefore possible that oil and gas companies operating in a similar environment can reach different conclusions about their functional currency.

IAS 21 also sets out additional factors to consider in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, may be the entity that has the foreign operation as its subsidiary, branch, associate or joint arrangement). This is relevant to oil and gas entities, particularly in the exploration phase. The factors to consider are:

IAS 21.11

- ▶ Whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency
- ▶ Whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities
- ▶ Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it
- ▶ Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.2 Basis of consolidation *continued*

#### 2.2.1 Foreign currencies *continued*

##### **Commentary *continued***

IAS 21 requires the functional currency to be determined by reference to factors that exist during the reporting period. Therefore, an entity should ignore future developments in its business, no matter how likely those developments are. For example, even if an entity is convinced that, in three years' time, it will have revenues that will be denominated in US dollars, this is not a factor to be considered in determining its functional currency today.

IAS 21 requires an entity to determine separately the functional currency of each entity in a consolidated group. There is no such concept as the functional currency of the group, only a presentation currency. Therefore, the functional currency of an operating subsidiary may differ from the group's parent and/or foreign sales company to which it sells its production.

##### **Change in functional currency**

Once the functional currency is determined, IAS 21 allows it to be changed only if there is a change in those underlying transactions, events and conditions. Consequently, an entity may conclude that during the development phase of a project the local currency is its functional currency but that, once production and sales commence, the US dollar is its functional currency. A change in functional currency is accounted for prospectively.

##### **Change in presentation currency**

A change in presentation currency is considered to be a change in accounting policy and is accounted for retrospectively.

### 2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

IAS 1.122,  
IAS 1.125

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas, and how they impact the various accounting policies, is set out throughout the financial statements, as described below. These include:

##### *Judgements:*

- ▶ Joint arrangements (Note 7.1C)
- ▶ Oil and gas exploration and evaluation assets (Note 4.1A)
- ▶ Taxes (Note 3.4A)
- ▶ Foreign currencies (Note 2.2.1)
- ▶ Revenue recognition (Note 3.3)
- ▶ Leases (Note 5.5)

IAS 1.122

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.3 Significant accounting judgements, estimates and assumptions *continued*

#### 2.3.1 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future development may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Estimates and assumptions:*

- ▶ Hydrocarbon reserve and resource estimates (Note 2.3.1(a))
- ▶ Oil and gas exploration and evaluation assets (Note 4.1A)
- ▶ Units of production (UOP) depreciation of oil and gas assets (Note 4.2A)
- ▶ Recoverability of assets (Notes 4.5A)
- ▶ Decommissioning liabilities (Note 4.6A(ii))
- ▶ Recovery of deferred tax assets (Note 3.4A(ii))
- ▶ Inventories (Note 6.3A)
- ▶ Fair value measurement (Note 5.3C)
- ▶ Provision for expected credit losses of trade receivables and contract assets (Note 6.2A)
- ▶ Revenue recognition (Note 3.3)
- ▶ Leases (Note 5.5)

#### Commentary

IAS 1 requires an entity to disclose the significant judgements applied in preparing the financial statements and significant estimates that involve a high degree of estimation uncertainty. The disclosure requirements go beyond those that already exist in some other IFRS, such as in IAS 37.

IAS 1.125

These disclosures represent an important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help the readers of the financial statements understand the impact of possible significant changes.

The Group has, for illustrative purposes, included disclosures about significant judgements and estimates beyond what is normally required. That is, only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities should be addressed in this section. It is important that entities carefully assess which judgements and estimates are most significant in this context, and make disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and uncertainties.

As part of the process of making the financial statements easier to read, we have disclosed the significant judgements, estimates and assumptions with the relevant accounting policy note (where relevant).

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.3 Significant accounting judgements, estimates and assumptions *continued*

IAS 1.122,  
IAS 1.125

#### 2.3.1 Estimates and assumptions *continued*

##### (a) Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves that are attributable to the host government under the terms of the production-sharing agreements (PSAs). Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of commercial reserves is US\$70/bbl (2018: US\$70/bbl). The carrying amount of oil and gas properties at 31 December 2019 is shown in [Note 4.2](#).

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers (SPE) Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- ▶ The carrying value of exploration and evaluation assets; oil and gas properties; other property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows ([Notes 4.1-4.5](#))
- ▶ Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the UOP method, or where the useful life of the related assets change ([Note 4.2](#))
- ▶ Provisions for decommissioning may require revision – where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities ([Note 4.6](#))
- ▶ The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets ([Note 3.4](#))

#### Commentary

IFRS does not address reserve and resource definitions and disclosures specifically. General industry practice when reporting under IFRS is not to include information regarding the assumptions used to determine reserves in the financial statements. However, IAS 1 requires the disclosure of key sources of estimation uncertainty. Therefore, disclosures about uncertainties surrounding the estimation of remaining economically recoverable reserves/proved and probable reserves, and a description of the method used by the entity to estimate economically recoverable reserves/proved and probable reserves (e.g., the Society of Petroleum Engineers or World Petroleum Council methodologies), should be covered in the appropriate notes.

IAS 1.125

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.4 Changes in accounting policies and disclosures

IAS 8.14

#### New and amended standards and interpretations

IAS 8.28

The Group applied IFRS 16 for the first time in the year ended 31 December 2019. The nature and effect of the changes as a result of adoption of new accounting standards and interpretations is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### IFRS 16 Leases

IFRS 16 supersedes IAS 17, IFRIC 4, SIC-15 and SIC-27. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16.C12

IAS 8.28

IFRS 16.C21

IFRS 16.1

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

#### Impact on Good Petroleum

The Group has lease contracts for various items of plant, equipment, vehicles and buildings. It does not have any subleases. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to [Note 5.5\\_Leases](#) for the accounting policy prior to 1 January 2019.

IFRS 16.62

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

IFRS 16.C5(b)

#### Commentary

A lessee is required to apply IFRS 16 to its leases either retrospectively to each prior reporting period, by applying IAS 8 (the full retrospective method), or retrospectively with the cumulative effect recognised at the date of initial application (the modified retrospective method). An entity applies the elected transition method consistently to all leases for which it is a lessee. The Group elected to apply the modified retrospective method in adopting the standard.

IFRS 16.C5-C6

An entity that elects the modified retrospective method applies IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings (or other component of equity) at the date of initial application. In addition, the standard includes specific transition requirements as well as practical expedients not available under the full retrospective method.

IFRS 16.C8-C11

The modified retrospective method eliminates the need to restate comparative information on transition, thereby reducing the cost of implementation for entities. However, entities may want to consider providing users with additional information that allows them to undertake trend analyses of the financial statements. For example, entities may provide voluntary disclosure of the amount by which each financial statement line item is affected in the current period as a result of the adoption of IFRS 16, or provide certain information outside the financial statements, such as in a management commentary or a risk report.

If the full retrospective method is applied, an entity must apply the requirements of IFRS 16 to each period presented in the financial statements, subject to specific transition requirements for sale and leaseback transactions entered into and amounts previously recognised in respect of business combinations before the date of initial application. The transition requirements relating to sale and leaseback transactions and business combinations had no impact on the consolidated financial statements of the Group.

IFRS 16.C16-C19

Refer to [Good Group \(International\) Limited 2019](#) for an illustration of the application of the full retrospective method.

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.4 Changes in accounting policies and disclosures *continued*

#### Commentary *continued*

Refer to our publication, [Applying IFRS Presentation and disclosure requirements of IFRS 16 Leases](#) for a summary and illustrative examples of the presentation and disclosure requirements under IFRS 16.

As a transition practical expedient, an entity is permitted to make an election not to reassess whether existing contracts are, or contain, leases, as defined under IFRS 16 at the date of initial application. If an entity elects this practical expedient, contracts that do not contain a lease under IAS 17 and IFRIC 4 (e.g., service arrangements) are not reassessed either. If an entity chooses to apply the practical expedient, it must be applied to all contracts that are ongoing at the date of initial application (i.e., an entity is not permitted to apply the option on a lease-by-lease basis) and that fact must be disclosed. IFRS 16.C3

The Group has lease contracts for various items of plant, equipment, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to [Note 5.5 Leases](#) for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to [Note 5.5 Leases](#) for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

#### ▶ *Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019. IFRS 16.C11

#### Commentary

Where the modified retrospective method of adoption is used, for leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

#### ▶ *Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases with lease terms that end within 12 months of the date of initial application and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. IFRS 16.C8-C10

The Group also applied the available practical expedients wherein it: IFRS 16.C13

- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- ▶ Relied on its assessment of whether leases are onerous immediately before the date of initial application
- ▶ Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- ▶ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- ▶ Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.4 Changes in accounting policies and disclosures *continued*

#### Commentary

Under IFRS 16, for leases previously classified as operating leases under IAS 17, a lessee is required to:

IFRS 16.C8

- ▶ Recognise a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- ▶ Measure the right-of-use asset on a lease by lease basis, at either:
  - ▶ Its carrying amount as if IFRS 16 had always been applied since the commencement date, but using a discount rate based on the lessee's incremental borrowing rate at the date of initial application
  - Or
  - ▶ An amount equal to the lease liability, adjusted for previously recognised prepaid or accrued lease payments
- ▶ Apply IAS 36 to right-of-use assets at the date of initial application, unless it applies the practical expedient for onerous leases.

The Group applied these requirements, as set out in the standard. The requirements of IAS 36 were not applied at the date of initial application as the Group applied the practical expedient for onerous leases.

IFRS 16.C10

Despite the above requirements, under IFRS 16, a lessee is not required to make adjustments on transition for leases of low-value assets. The Group has applied this transition requirement. A lessee is also not required to make adjustments on transition for leases previously accounted for as investment property using the fair value model in IAS 40. However, it is required to measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases under IAS 17 and that will be accounted for as investment property using the fair value model in IAS 40 from the date of initial application. The Group is not a lessee of investment properties.

In addition, under IFRS 16, a lessee may use one or more practical expedients to leases previously classified as operating leases, as set out above. IFRS 16 provides that if an entity uses any of these available practical expedients, it is required to disclose that fact.

IFRS 16.C13



# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.4 Changes in accounting policies and disclosures *continued*

The effect (increase/(decrease)) of adopting IFRS 16 as at 1 January 2019 is set out below:

	<b>US\$ million</b>
<b>Assets</b>	
Right-of-use assets	155
Deferred tax assets	46
<b>Total assets</b>	<b>201</b>
<b>Liabilities</b>	
Interest-bearing loans and borrowings	
Current	50
Non-current	105
Deferred tax liabilities	46
<b>Total liabilities</b>	<b>201</b>

As at 1 January 2019:

- ▶ 'Right-of-use assets' were recognised and presented separately in the statement of financial position. This includes the leased assets recognised previously under finance leases that were reclassified from property, plant and equipment.
- ▶ Additional lease liabilities were recognised and included under 'Interest-bearing loans and borrowings'.
- ▶ Additional 'Deferred tax assets' and 'Deferred tax liabilities' were recognised because of the deferred tax impact of the changes in recognised lease-related assets and liabilities.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	<b>US\$ million</b>
Operating lease commitments as at 31 December 2018	<b>260</b>
<b>Exclude/deduct</b>	
(a) Contracts that do not meet the revised definition of a lease	(15)
(b) Committed leases not commenced at 1 January 2019	(20)
(c) Non-lease components previously included as part of commitments with existing lease contracts	(30)
(d) Commitments relating to unrecognised short-term lease contracts	(25)
(e) Commitments relating to unrecognised leases of low-value assets	(15)
<b>Include/add</b>	
(f) Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	16
(g) Effect of discounting	(16)
<b>Discounted recognised lease liabilities as at 1 January 2019</b>	<b>155</b>

#### (a) Contracts that do not meet the revised definition of a lease

The Group had a take or pay arrangement where it had previously been concluded that it contained a lease under IFRIC 4. Upon adoption of IFRS 16, all contracts were reassessed using IFRS 16's new definition of a lease. It was determined that this contract did not meet this new definition. As of 1 January 2019, the contract is now accounted for as an executory contract and therefore, the \$15 million is not included in the recognition of lease liabilities as at 1 January 2019.

#### (b) Committed leases not yet commenced as at 1 January 2019

The Group's operating lease commitments disclosed as at 31 December 2018 included amounts relating to several lease contracts that had not yet commenced as at 31 December 2018. Under IFRS 16, leases are recognised at the lease commencement date. Therefore, such leases are excluded from the lease liability balance recognised as at 1 January 2019. Commitments in relation to such leases that have not yet commenced as at 31 December 2019 continue to be disclosed in the lease commitments note - see [Note 4.7](#).

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.4 Changes in accounting policies and disclosures *continued*

(c) Non-lease components previously included as part of commitments with existing lease contracts IFRS 16.15

In accordance with IFRS 16, the Group accounts for services included with contracts that contain a lease ("non-lease components") separately from the lease components. These amounts, which include lessor provided maintenance related to leased assets, were previously included within lease commitments. IFRS 16.C10(c)

#### Commentary

Under IFRS 16, as a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead, account for each lease component and any associated non-lease components as a single lease component.

(d) and (e) Commitments relating to unrecognised short-term leases and leases of low-value assets

As permitted by IFRS 16, the Group has elected not to recognise right-of-use assets and lease liabilities relating to short-term leases with lease terms that end within 12 months of the date of initial application and leases of low-value assets. The operating lease commitments disclosed as at 31 December 2018 included amounts in relation to such leases. IFRS 16.C10(c) IFRS 16.C10(e)

(f) Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018

Applying the transitional provisions of IFRS 16, the remaining term of one of the leases has been reassessed with the benefit of hindsight, on the basis that the Group is now reasonably certain of exercising the option to extend in relation to this lease. The lease payments associated with the longer lease term are included in the calculation of the lease liability as at 1 January 2019. IFRS 16.C10(e)

(g) Effect of discounting

The lease liability recognised under IFRS 16 is measured on a discounted basis, whereas the operating lease commitments disclosed as at 31 December 2018 are disclosed on an undiscounted basis. The discount rates used to discount the lease payments for each lease is the incremental borrowing rate appropriate for each lease at the date of initial application, i.e., the rate as at 1 January 2019. The incremental borrowing rates were determined for each lease taking into consideration factors such as the term of the lease, the nature of the asset, credit risk and economic environment in which the asset was located (which included the currency in which the lease was denominated). IFRS 16.C12

The weighted average discount rate used on transition was 3.7% per annum.

#### Commentary

Under IFRS 16, a lessee that elected to apply the modified retrospective method is required to disclose the following:

- ▶ The weighted average incremental borrowing rate applied to lease liabilities recognised at the date of initial application
- ▶ An explanation of any difference between the result of discounting the operating lease commitments reported under IAS 17 at the end of the annual reporting period preceding the date of initial application and lease liabilities recognised on the statement of financial position immediately after posting the cumulative catch-up adjustment on the date of initial application

The Group has provided the disclosure in the form of a table to reconcile the operating lease commitments reported under IAS 17 as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019. This is one way that entities can comply with the disclosure requirement under IFRS 16 and represents the leading practice. The inclusion of additional commentary is not mandatory, but may provide useful information to assist the reader understand the reconciling item.

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.4 Changes in accounting policies and disclosures *continued*

#### Commentary

Only those new and amended standards and interpretations that actually impact the financial position, financial results, disclosures or stated accounting policies of the Group should be listed. Entities are not required to disclose the impact of such standards or interpretations if they will have no impact. For details of other new and amended standards and interpretations, refer below for the remaining list.

#### Other new and amended standards and interpretations effective for the 2019 year which did not impact the Group

The following new and/or amended standards did not have any impact on the accounting policies, financial position or performance of the Group:

- ▶ IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*
- ▶ Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- ▶ Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
- ▶ Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*
- ▶ Annual IFRS Improvement Process
  - ▶ IFRS 3 *Business Combinations - Previously held Interests in a joint operation*
  - ▶ IFRS 11 *Joint Arrangements - Previously held Interests in a joint operation*
  - ▶ IAS 12 *Income Taxes - Income tax consequences of payments on financial instruments classified as equity*
  - ▶ IAS 23 *Borrowing Costs - Borrowing costs eligible for capitalisation*

For further information on these and the associated illustrative disclosures, please refer to [Good Group \(International\) Limited 2019 illustrative financial statements](#).

#### Impact of new accounting standards

IAS 8 governs disclosures in relation to changes in accounting policies.

Specifically, IAS 8.28 requires the following to be disclosed (unless relief is provided by a transitional provision in the standard):

- (a) The title of the IFRS
- (b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions
- (c) The nature of the change in accounting policy
- (d) When applicable, a description of the transitional provisions
- (e) When applicable, the transitional provisions that might have an effect on future periods
- (f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - (i) For each financial statement line item affected
  - (ii) If IAS 33 applies to the entity, for basic and diluted earnings per share
- (g) The amount of the adjustment relating to periods before those presented, to the extent practicable
- (h) If retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

IAS 8.30

In some jurisdictions, the adoption of IFRS for reporting purposes may be subject to a specific legal process (e.g., in the European Union or Australia). In those jurisdictions, the effective dates may therefore be different from the IASB's effective dates. Nevertheless, all new standards and interpretations must be considered for disclosure as standards issued but not yet effective, in accordance with IAS 8, when an entity provides a complete set of financial statements, irrespective of whether the legal process referred to above has been completed.

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.5 Summary of significant accounting policies

IAS 1.112

#### Commentary

As part of the process of streamlining financial statements, improving disclosure effectiveness and providing a more holistic discussion to users of the financial statements, entities may also consider placing certain significant accounting policies together in the same note as the related qualitative and quantitative disclosures. Alternatively, they may choose to continue to present all accounting policies together in a single accounting policy note, either towards the front of the financial statements or towards the back of the financial statements.

The Group has elected to adopt the approach of placing certain accounting policies at the end of each relevant note, e.g., the joint arrangements accounting policy note can be found at the end of [Note 7.1](#). As an alternative, entities may wish to place the accounting policy at the start of each relevant note. This will be a matter for each entity to decide. The Group elected to leave most of the financial instruments accounting policies here in [Note 2.5](#) as it relates to various notes presented in different places throughout the financial statements, as well as the policy on classification of assets and liabilities as current versus non-current. The exception is the policy on impairment of financial assets which is set out in [Note 6.2](#).

#### **(a) Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. IAS 32.11

#### **(i) Financial assets**

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. IFRS 7.21, IFRS 9.4.1.1

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient (that allows for the promised amount of consideration not to be adjusted for the effects of a significant financing component if, at contract inception, the entity expects that the period between the transfer of a promised good or service and customer payment will be one year or less), the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient noted above, are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in [section 3.3B](#) Accounting policy - revenue. IFRS 9.4.1.1, IFRS 15.108, IFRS 15.63, IFRS 9.5.1.1/3

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. IFRS 9.4.1.2(b), IFRS 9.4.1.2(b)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling. IFRS 9.B4.1.1

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. IFRS 9.3.1.2

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.5 Summary of significant accounting policies *continued*

#### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

*IFRS 9.5.2.1*

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss

#### Financial assets at amortised cost (debt instruments)

*IFRS 9.4.1.2*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

*IFRS 9.5.4*

The Group's financial assets at amortised cost includes trade receivables and joint arrangement receivables.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

*IFRS 9.4.1.4*

*IFRS 9.5.7.1*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*IFRS 9.4.3.3*

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.5 Summary of significant accounting policies *continued*

#### Financial assets at fair value through profit or loss *continued*

##### Commentary

The Group only has simple financial instruments, which comprise only of financial assets at amortised cost (debt instruments) and derivatives. For illustrative purposes, we have included a more detailed description of financial instruments disclosure notes than may be necessary for understanding of the entity's financial instruments.

For entities that have complex financial instruments which meet the definition of financial assets at amortised cost, the SPPI assessment can be particularly challenging. The application guidance for IFRS 9 and EY's International GAAP 2019 publication provide specific examples of instruments that pass or fail the SPPI test. Such entities should also consider providing more detailed accounting policies in relation to their SPPI and business model assessments.

For entities that have provisionally priced sales contracts, further wording on the impact of IFRS 9 is included in [Appendix 2](#).

The illustrative disclosures in [Good Group \(International\) Limited 2019](#) are relevant for consideration if an entity has more complex financial instruments and includes accounting policy disclosure notes for:

- ▶ Financial assets at fair value through OCI (debt instruments)
- ▶ Financial assets designated at fair value through OCI (equity instruments)

##### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- ▶ The rights to receive cash flows from the asset have expired

Or

- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

IFRS 9.3.2.3(a)

IFRS 9.3.2.4(a)

IFRS 9.3.2.4(b)

IFRS 9.3.2.6(a),  
IFRS 9.3.2.6(c)

IFRS 9.3.2.4(b)

IFRS 9.3.2.16

IFRS 9.5.5.1

IFRS 9.5.5.1

IFRS 9.5.5.15

IFRS 9.B5.5.35

# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.5 Summary of significant accounting policies *continued*

IFRS 7.35F(b)

#### Impairment of financial assets *continued*

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Further disclosures relating to impairment of trade and other receivables and contract assets are set out in [Note 6.2](#).

IFRS 9.5.5.9,  
IFRS 9.B5.5.37

#### Commentary

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

IFRS 9.5.5.3

IFRS 9.5.5.5

The exception to this is where the simplified approach to calculating ECL is applied. An entity is required to apply the simplified approach for trade receivables or contract assets that do not contain a significant financing component, or when the entity applies the practical expedient for contracts that have a maturity of one year or less. However, an entity has a policy choice to apply either the simplified approach or the general approach for the following:

- ▶ All trade receivables or contract assets that contain a significant financing component in accordance with IFRS 15. The policy choice may be applied separately to trade receivables and contract assets.
- ▶ All lease receivables that result from transactions that are within the scope of IFRS 16. The policy choice may be applied separately to finance and operating lease receivables.

Given Good Petroleum has little credit exposures and is rarely exposed to bad or doubtful debts we consider the ECL calculations for Good Petroleum would be relatively simple. If this were not the case then more disclosure may be required.

#### (i) Financial liabilities

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

IFRS 7.6

IFRS 7.21

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

IFRS 9.5.1.1

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

##### Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

##### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

IFRS 9.4.2.1(a)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

IFRS 9.5.7.1

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income.



# Notes to the consolidated financial statements *continued*

## Section 2. Basis of preparation and other significant accounting policies *continued*

### 2.5 Summary of significant accounting policies *continued*

#### Financial liabilities at amortised cost (loans and borrowings)

IFRS 9.4.2.1

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised, as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

IFRS 9.5.7.2

This category generally applies to interest-bearing loans and borrowings and trade and other payables. For more information, refer to [Note 5.3A](#) and [Note 6.4](#).

#### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

IFRS 9.3.3.1

IFRS 9.3.3.3

IFRS 9.3.3.2

#### (iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

IAS 32.42

#### (iv) Derivative financial instruments

The Group uses derivative financial instruments, such as forward commodity contracts, to hedge its commodity price risks. The Group has elected not applied hedge accounting to these derivatives. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, and presented within operating profit.

IFRS 9.4.1.4,  
IFRS 9.4.2.1,  
IFRS 7.21

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exception from IAS 32 and IFRS 9, which is known as the 'normal purchase or sale exemption' or the 'own use' scope exception.

IFRS 9.2.4,  
IAS 32.8

For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in [Note 5.3](#).

#### Commentary

For those financial instruments not specifically mentioned in the Group's accounting policy note please refer to [Good Group \(International\) Limited 2019](#) for illustrative disclosures.

#### (b) Interest income/expense

For all financial instruments measured at amortised cost, interest income or expense is calculated using the effective interest rate (EIR) method. EIR is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income and interest expense is included in finance costs in the statement of profit or loss and other comprehensive income, respectively.

IAS 1.82(a)

IFRS 9.5.4.1



# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year

This section provides additional information that is most relevant in explaining the Group's performance during the year.

- ▶ Segment reporting (Note 3.1)
- ▶ Key items comprising operating profit/loss (Note 3.2)
- ▶ Revenue from contracts with customers (Note 3.3)
- ▶ Calculation of income tax (Note 3.4)
- ▶ Earnings per share (Note 3.5)
- ▶ Dividends paid and proposed (Note 3.6)

### 3.1 Segment information

IFRS 8.22(a), IAS  
1.138(b)

All of the Group's assets and operations are located in Petroland. For management purposes, the Group is organised into business units based on the main types of activities and has three reportable segments, as follows:

- ▶ *Oil exploration and production segment*: includes all upstream business activities
- ▶ *Refining and trading of crude oil and petroleum products segment*: includes downstream activities such as the Pole Lubricants refinery plant acquired in 2019 and other refinery assets, marketing and trading of oil and petroleum products
- ▶ *Oil transportation segment*: represents the jointly controlled pipeline assets, which are mostly used to transport the Group's oil to the nearest main oil line

IFRS 8.22(b)

No operating segments have been aggregated to form the above reportable operating segments.

The Executive Management Committee (which collectively is considered to be the Chief Operating Decision Maker) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

IFRS 8.7

IFRS 8.27(a)

IFRS 8.27(b)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Section 2 and the respective quantitative and qualitative notes of the financial statements.

IFRS 8.28

### Adjustments and eliminations

Finance income and costs, and fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

Inter-segment revenues are eliminated on consolidation.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.1 Segment information *continued*

#### Commentary

IFRS 8 requires entities to disclose factors used to identify the entity's reportable segments, including basis of organisation and other factors considered in determining aggregation of operating segments. IFRS 8 explains that operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

IFRS 8.22(a)

IFRS 8.12

IFRS 8.12

- (a) The nature of the products and services;
- (b) The nature of the production processes;
- (c) The type or class of customer for their products and services;
- (d) The methods used to distribute their products or provide their services; and
- (e) If applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

This analysis requires significant judgement about the circumstances of the entity.

The Group's internal reporting is set up to report in accordance with IFRS. The segment disclosures could be significantly more extensive if internal reports had been prepared on a basis other than IFRS (e.g., national GAAP or tax basis). In this case, a reconciliation between the internally reported items and the externally communicated items would need to be prepared.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.1 Segment Information *continued*

Year ended 31 December 2019	Oil exploration and production	Refining and trading of crude oil and petroleum products	Oil transportation	Adjustments and eliminations	Consolidated	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
<b>Revenue</b>						
External customers	2,871	957	–	–	3,828	IFRS 8.23(a)
Inter-segment	567	12	114	(693) <sup>1</sup>	–	IFRS 8.23(b)
<b>Total revenue from contracts with customers</b>	<b>3,438</b>	<b>969</b>	<b>114</b>	<b>(693)</b>	<b>3,828</b>	
<b>Results</b>						
Depreciation and amortisation	(452)	(114)	(36)	–	(602)	IFRS 8.23(c)
Impairment of exploration and evaluation assets	(5)	–	–	–	(5)	IFRS 8.23(i)
Impairment of oil and gas properties	(33)	–	–	–	(33)	IFRS 8.23(i) IAS 36.129
Share of profit of equity-accounted joint venture	33	–	–	–	33	IFRS 8.23(g)
<b>Profit before tax</b>	<b>1,036</b>	<b>822</b>	<b>78</b>	<b>(71)<sup>2</sup></b>	<b>1,865</b>	IFRS 8.28(b)
Income tax expense					(782)	
<b>Net profit for the year</b>					<b>1,083</b>	
<b>Segment assets</b>	<b>7,721</b>	<b>287</b>	<b>56</b>	<b>(538)<sup>3</sup></b>	<b>7,526</b>	IFRS 8.23
<b>Segment liabilities</b>	<b>(1,645)</b>	<b>(187)</b>	<b>(41)</b>	<b>(921)<sup>4</sup></b>	<b>(2,794)</b>	IFRS 8.23
<b>Other disclosures</b>						
Investment in joint venture	114	–	–	–	114	IFRS 8.24(a)
Capital expenditure <sup>5</sup>	2,073	12	–	–	2,085	IFRS 8.24(b)

1. Inter-segment revenues are eliminated on consolidation.

IFRS 8.28

2. Profit for each operating segment does not include finance income (US\$24 million), finance costs (US\$100 million) and gain on derivative financial instruments (US\$5 million).

3. Segment assets do not include deferred tax assets (US\$116 million) and other intangible assets (US\$11 million) as these assets are managed on a group basis. US\$655 million of inter-segment receivables are eliminated on consolidation.

4. Segment liabilities do not include deferred tax liabilities (US\$502 million), current tax payable (US\$350 million) and interest-bearing loans and borrowings (US\$724 million) as these liabilities are managed on a group basis. US\$655 million of inter-segment payables are eliminated on consolidation.

5. Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to property, plant and equipment and to other intangible assets including assets from the acquisition of subsidiaries.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.1 Segment information *continued*

Year ended 31 December 2018	Oil exploration and production	Refining and trading of crude oil and petroleum products	Oil transportation	Adjustments and eliminations	Consolidated	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
<b>Revenue</b>						
External customer	2,128	789	–	–	2,917	IFRS 8.23(a)
Inter-segment	483	11	99	(593) <sup>1</sup>	–	IFRS 8.23(b)
<b>Total revenue from contracts with customers</b>	<b>2,611</b>	<b>800</b>	<b>99</b>	<b>(593)</b>	<b>2,917</b>	
<b>Results</b>						
Depreciation and amortisation	(196)	(78)	(19)	–	(293)	IFRS 8.23(e)
Impairment of exploration and evaluation assets	(6)	–	–	–	(6)	IFRS 8.23(i)
Impairment of oil and gas properties	(9)	–	–	–	(9)	IFRS 8.23(i)
Share of profit of equity- accounted joint venture	25	–	–	–	25	IFRS 8.23(g)
<b>Profit before tax</b>	<b>653</b>	<b>722</b>	<b>80</b>	<b>(6)</b> <sup>2</sup>	<b>1,449</b>	IFRS 8.28(b)
Income tax expense					(529)	
<b>Net profit for the year</b>					<b>920</b>	
<b>Segment assets</b>	<b>6,139</b>	<b>137</b>	<b>36</b>	<b>(470)</b> <sup>3</sup>	<b>5,842</b>	IFRS 8.23
<b>Segment liabilities</b>	<b>(1,424)</b>	<b>(14)</b>	<b>(21)</b>	<b>(384)</b> <sup>4</sup>	<b>(1,843)</b>	IFRS 8.23
<b>Other segment information</b>						
Investment in joint venture	81	–	–	–	81	IFRS 8.24(a)
Capital expenditure <sup>5</sup>	1,685	86	–	–	1,771	IFRS 8.24(b) IFRS 8.28

- Inter-segment revenues are eliminated on consolidation.
- Profit for each operating segment does not include finance income (US\$25 million), finance costs (US\$40 million) and gain on derivative financial instruments (US\$9 million).
- Segment assets do not include deferred tax assets (US\$57 million) and other intangible assets (US\$7 million) as these assets are managed on a group basis. US\$534 million of inter-segment receivables are eliminated on consolidation.
- Segment liabilities do not include deferred tax liabilities (US\$386 million), current tax payable (US\$166 million) and interest-bearing loans and borrowings (US\$366 million) as these liabilities are managed on a group basis. US\$534 million of inter-segment payables are eliminated on consolidation.
- Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to property, plant and equipment and to other intangible assets including assets from the acquisition of subsidiaries.

### Geographic information

The operations of the Group are located in only one geographic location, Petroland.

IFRS 8.33(a)

All revenue is generated from sales to customers located in Petroland.

IFRS 8.34

Revenue from three major customers exceeded 10% of Group consolidated revenue and amounted to US\$415 million, US\$651 million and US\$600 million (2018: four major customers amounting to US\$381 million, US\$400 million, US\$512 million and US\$344 million), respectively, arising from sales of crude oil.

IFRS 8.33(b)

All non-current assets of the Group are located in Petroland.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.1 Segment information *continued*

#### Commentary

The Group's internal reporting is set up to report in accordance with IFRS. The segment disclosures could be significantly more extensive if internal reports had been prepared on a basis other than IFRS. In this case, a reconciliation between the internally reported items and the externally communicated items would need to be prepared.

In addition to the amounts disclosed under paragraphs 2 (a)-(e), IFRS 8 requires an entity to disclose material items of income and expense disclosed in accordance with IAS 1. IAS 1 requires an entity to disclose separately the nature and amount of material items of income or expense. In order to fulfil requirements of paragraph 23(f) of IFRS 8, the Group disclosed for each reportable segments the following items of income or expenses that are included in the measure of the segment profit or loss reviewed by CODM: cost of inventories recognised as an expense and employee benefits expenses.

Interest revenue and interest expense by segment have not been disclosed as these items are managed on a group basis and are not provided to the chief operating decision-maker (CODM) at the operating segment level. Disclosure of operating segment assets and liabilities is required only where such measures are provided to the CODM. The Group provides information about operating assets and liabilities to the CODM. The remaining operations (e.g., taxation) that are reflected in 'Adjustments and eliminations', do not constitute an individual operating segment.

IFRS 8.23(f)  
IAS 1.97

#### **Application of IFRS 8 to exploration entities**

IFRS does not specifically prescribe the application of operating segments to exploration entities and whether exploration properties meet the definition of an operating segment under IFRS 8.

Exploration properties are capable of meeting the definition of an operating segment under IFRS 8. This is because it would be considered a component of an entity that engages in business activity (exploration), and while it does not currently generate revenue, it does incur expenses; the operating results, including the cash spent, is regularly reviewed by the CODM; and discrete financial information is available.

The level at which an operating segment can be aggregated will depend on whether the criteria outlined in IFRS 8 have been met. The CODM is the person(s) responsible for allocating resources and assessing the operating results of the entity that, for oil and gas exploration companies, include key decisions relating to how to spend available cash (e.g., which targets, what type of exploration) and how to finance such expenditure (e.g., equity, joint venture, farm-ins). Generally, the information provided to the CODM is cash spent and exploration results (i.e., net pay encountered, reserves and resources, etc.).

IAS 8.12

The level at which this information is prepared or aggregated may vary widely depending on factors such as the size of the mining company, etc. For example, the CODM may receive the above information for:

- ▶ Each individual target area (in a reservoir)
- ▶ Each separately defined exploration area (in a permit)
- ▶ Each permit
- ▶ Each geological structure (which may span several permits but in a geographical region)
- ▶ Each geographical region (such as country, state, province, etc.)

The level at which the information is received by the CODM is the major determinant of the level at which operating segments exist for oil and gas exploration entities.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.2 Operating profit/loss

Operating profit is stated after (charging)/crediting:

	2019	2018	
	US\$ million	US\$ million	
Depreciation charge – oil and gas properties	(551)	(285)	IAS 1.104
Depreciation of other property, plant and equipment	(7)	(8)	IAS 1.104
Depreciation of right-of-use assets	(43)	–	IFRS 16.53(a)
Amortisation of other intangible assets	(1)	–	IAS 38.118(d), IAS 1.104
<b>Total depreciation and amortisation</b>	<b>(602)</b>	<b>(293)</b>	
Impairment of oil and gas properties	3.2(a) (33)	(9)	IAS 36.126(a)
Impairment of exploration and evaluation assets	(5)	(6)	IFRS 6.23 IAS 36.126 (a)
Reversal of previously impaired exploration and evaluation assets	3.2(b) 16	–	IAS 36.126 (b) IFRS 6.23
Gain on sale of oil and gas properties	3.2(e) 39	58	IAS 1.98
Gain on sale of exploration and evaluation assets	3.2(c) 1	–	IAS 1.98
Gain/(loss) on sale of property, plant and equipment	11	(11)	IAS 1.98
Gain on derivative financial instruments	5.3B 5	9	
Pre-licence expenditure	3.2(d) (13)	(9)	IFRS 6.23
Exploration and evaluation costs written off	(90)	(75)	IFRS 6.23
Employee benefits expense	(158)	(161)	IAS 1.104
Variable lease expenses	(18)	–	IFRS 16.53(e)
Short-term lease expenses	(10)	–	IFRS 16.53(c)
Low value asset lease expenses	(15)	–	IFRS 16.53(d)
Movement in oil inventory	1	3	IAS 2.36(d)
Royalties paid	(182)	(181)	

#### 3.2 (a) Impairment of oil and gas properties

Floods have damaged certain isolated production facilities at Eagle field. During the year, the Group carried out an impairment review of the related cash-generating unit (CGU). The review determined that the commercial viability of the field has decreased significantly. As a result, an impairment loss was recognised in the statement of profit or loss and other comprehensive income as part of other operating expenses. Refer to [Note 4.5](#) for a description of the assumptions used in the impairment calculation.

IAS 36.130

#### 3.2 (b) Reversal of previously impaired capitalised exploration and evaluation assets

The Group has reversed some of the previously recognised impairment losses related to Sand field. These reversals resulted from market evidence from a comparable transaction of a higher fair value less costs of disposal than the current carrying value. The reversal of these previously recognised impairment losses is included in the statement of profit or loss and other comprehensive income as part of other operating expenses.

IAS 36.130

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.2. Operating profit/loss *continued*

#### 3.2 (c) Gain on sale of exploration and evaluation assets

The group entered into a farm-out agreement with Oilco to share costs and risks associated with exploration activities on the Grizzly field. As part of the farm-out, Oilco contributed cash of US\$23 million and, in accordance with the policy described in [Note 4.1A\(iv\)](#), this amount was credited to the related exploration and evaluation asset, which totalled US\$22 million (see [Note 4.1](#)). The excess US\$1 million was recognised as a gain on disposal of exploration and evaluation assets in the statement of profit or loss and other comprehensive income.

IAS 1.98

#### 3.2 (d) Pre-licence expenditure

The pre-licence expenditure relates predominantly to the licence areas, Fox and Snake, where the Group incurred geological and geophysical costs, but where the Petroland government has not yet granted rights. These costs were expensed as incurred.

IFRS 6.23

All other gains and losses in the current and preceding year were derived from continuing operations.

#### 3.2 (e) Gain on sale of oil and gas properties

In 2019 the Group disposed of oil and gas properties with a total net carrying amount of US\$ 70 million for cash consideration of US\$109 million.

### Commentary

Refer [Note 4.1A\(iv\)](#) for more details regarding the accounting for farm-in/farm-out arrangements. For the purposes of these illustrative financial statements, where the Group is the farmor, any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

On disposal of property, plant and equipment, entities should take into account the consequential amendments made by IFRS 15:

- ▶ The date of disposal of the asset is the date the recipient obtains control of the asset in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15 (IAS 16).
- ▶ The amount of consideration to be included in the gain or loss arising from the derecognition is determined in accordance with the requirements for determining the transaction price in IFRS 15. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in transaction price in IFRS 15 (IAS 16).

IAS 16.69

IAS 16.72

### 3.3 Revenue from contracts with customers

#### 3.3A Disaggregated revenue information

	2019	2018
	US\$ million	US\$ million
Type of goods		
Revenue from crude oil sales	3,427	2,627
Revenue from petroleum products sales	401	290
<b>Total revenue from contracts with customers</b>	<b>3,828</b>	<b>2,917</b>

IFRS 15.113-115

Of the crude oil sales, US\$556m (2018: US\$499m) was sold by the refining segment, with the remainder of crude oil sales being sold by the oil exploration and production segment. Petroleum product sales were made by the refining segment.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3A Disaggregated revenue information *continued*

##### Commentary

The Group presented disaggregated revenue based on the type of goods or services provided to customers (Note 3.3A). Revenue could also be presented on the basis of the geographical region, but since all sales are made within the same country, geographical disaggregation is not applicable to the Group. Entities will need to determine based on entity-specific and/or industry-specific factors what would be most meaningful to their business.

In this instance, some narrative information has been included to allow for a reconciliation between the disaggregated revenue disclosures and segment disclosures. In a more complex example, entities may find it appropriate to provide disaggregated revenue information within the segment reporting disclosures or to provide a numerical reconciliation between disaggregated revenue and segment information.

#### 3.3B Accounting policy - revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in all of its revenue arrangements since it controls the goods or services before transferring them to the customer.

IFRS 15.B34

##### Commentary

###### *Principal versus agent considerations*

When more than one party is involved in providing goods or services to a customer, IFRS 15 requires an entity to determine whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. An entity is a principal (and, therefore, records revenue on a gross basis) if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent (and, therefore, records as revenue the net amount that it retains for its agency services) if its role is to arrange for another entity to provide the goods or services.

IFRS  
15.BC385D

In the Basis for Conclusions, the Board explained that in order for an entity to conclude that it is providing the good or service to the customer, it must first control that good or service. That is, the entity cannot provide the good or service to a customer if the entity does not first control it. If an entity controls the good or service, the entity is a principal in the transaction. If an entity does not control the good or service before it is transferred to the customer, the entity is an agent in the transaction.

IFRS  
15.BC385E

The Board also noted that an entity that itself manufactures a good or performs a service is always a principal if it transfers control of that good or service to another party. There is no need for such an entity to evaluate the principal versus agent application guidance because it transfers control of or provides its own good or service directly to its customer without the involvement of another party. For example, if an entity transfers control of a good to an intermediary that is a principal in providing that good to an end-customer, the entity records revenue as a principal in the sale of the good to its customer (the intermediary).

Entities will need to carefully evaluate whether a gross or net presentation is appropriate. IFRS 15 includes application guidance on determining whether an entity is a principal or agent in an arrangement that is similar to legacy IFRS. However, the key difference is that the standard focuses on control of the specified goods or services as the overarching principle for entities to consider in determining whether they are acting as a principal or an agent.

That is, an entity will first evaluate whether it controls the specified good or service before reviewing the standard's principal indicators. These indicators are meant to support an entity's assessment of control, not to replace it, and each indicator explains how it supports the assessment of control.

For the marketing and trading segment of the business, the Group would need to carefully consider the facts and circumstances of its arrangements, particularly if its assessment of the definition of control and the principal indicators result in different conclusions regarding control of specified goods or services. This is because the entity's assessment of control and the principal indicators should align. For example, a midstream or marketing and trading entity may have a contract with a producer to market and sell the producer's product to a third party. Both the midstream/trading entity and the producer need to determine whether the midstream entity is acting as a principal or an agent in the arrangement.

The midstream/trading entity will use the assessment to determine which party is the customer and whether to record product revenue based on the purchase and sale of the commodity or service revenue for the amount it retains for marketing services provided to the producer. Midstream/trading entities should consider whether (and when) they obtain control of the producers' product for sale to the end customer. Because there are various ways midstream/trading entities can obtain and transfer a product (i.e., at the wellhead, inlet or tailgate of the processing plant, or a location where the product is delivered to a third party), they may reach different conclusions for different contracts, depending on the facts and circumstances.

Principal versus agent analysis must also be considered where the Operator in a joint arrangement purchases product from the non-operator parties to on-sell. It must be assessed whether the Operator is the customer of the non-operator parties, or whether, the Operator is merely acting as an agent for the non-operator parties.



# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting policy - revenue from contracts with customers *continued*

##### *Revenue from crude oil sales*

The crude oil produced by the upstream operations is sold to external customers and to the Group's marketing and trading arm. Revenue from the sale of crude oil is recognised at the point in time when control of the product is transferred to the customer, which is generally when the product is physically transferred into a vessel, pipe or other delivery mechanism and the customer accepts the product. Consequently the Group's performance obligations are considered to relate only to the sale of crude oil, with each barrel of crude oil considered to be a separate performance obligation under the contractual arrangements in place. The transportation and shipping cost associated with the transfer of the product to the point of sale is recognised as a selling cost.

Under the terms of the relevant production sharing arrangements, the Group is entitled to its participating share in the crude oil based on the Group's working interest. Revenue from contracts with customers is recognised based on the actual volumes sold to customers. No adjustments are made to revenue for any differences between volumes sold to customers and unsold volumes which the Group is entitled to sell based on its working interest. Revenue in respect of such volumes is only recognised when there is a transfer of output to the Group's customers. Differences between the volume which the Group is entitled to sell based on its working interest and the actual volumes that the Group has sold to customers are generally not significant.

The Group may purchase crude oil from its joint operation partners in the upstream operations. The Group considers whether it is acting as principal or agent in those transactions based on whether it controls the crude oil purchased from the joint venture partner before transferring the product to its customers. The Group has concluded it is acting as principal under the terms of its contractual arrangements.

The Group's sales of crude oil are priced based on market prices. The sales price is the Brent crude oil price on the date of sale, adjusted for a quality differential based on the American Petroleum Institute (API) gravity of the crude oil sold relative to Brent. The crude oil is generally priced at a premium to Brent. While the transaction price is variable under the terms of the contract, at the time of delivery, there is only a minimal risk of a change in the transaction price to be allocated to the crude oil volume sold, limited to any change in the API differential on final quality testing of the crude oil relative to the forecast quality differential. Accordingly, at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognised, and there is no need to constrain any variable consideration under IFRS 15. The Group applies the allocation exception that allows an entity to allocate variable consideration (i.e., the market price) to one or more (but not all) performance obligations, instead of using the relative stand-alone selling price method. Invoices are typically paid on 14 day terms.

Sales between group companies, as disclosed in the operating segment information, are based on prices generally equivalent to commercially available prices.

##### *Revenue from petroleum product sales*

The Group's refining segment purchases crude oil from the exploration and production segment and from external customers, refines the product and then on sells crude oil, naphtha, condensate, and other petroleum products to external parties.

Revenue from the sale of petroleum products is recognised at a point in time when control of the product is transferred to the customer, which is generally when the product is physically transferred into a vessel, pipe or tanker and the customer accepts the product. Consequently the Group's performance obligations are considered to relate only to the sale of petroleum product, with each barrel of oil equivalent considered to be a separate performance obligation under the contractual arrangements in place. The transportation and shipping cost associated with the transfer of the product to the point of sale is recognised as a selling cost.

The products are sold based on market prices, in some cases through spot market transactions, and in other cases under contractual arrangements. While the transaction price is variable, at the time of delivery there is only a minimal risk of a change in the transaction price to be allocated to the crude oil volume sold, limited to any change in the final quality testing of the product relative to the forecast quality differential. Accordingly at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognised, and there is no need to constrain any variable consideration under IFRS 15. The Group applies the allocation exception that allows an entity to allocate variable consideration (i.e., the market price) to one or more (but not all) performance obligations, instead of using the relative stand-alone selling price method. Invoices are typically paid on 14 day terms.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting policy - revenue from contracts with customers *continued*

The Group's refining and trading arm only undertakes physical sales of product to customers. The Group does not enter into derivative trading transactions and there is no net settlement of transactions. Accordingly, the Group's sales are also considered to constitute revenue from contracts with customers in accordance with the requirements of IFRS 15.

##### *Revenue from transportation*

Revenue earned by the Group's oil transportation segment is solely for the transportation of oil for the Group's exploration and production segment and is eliminated in the Group's results.

##### *Marketing and trading activities*

With respect to the Group's refining and trading arm, the Group only undertakes physical sales of product to customers. The Group does not enter into derivative trading transactions and there is no net settlement of transactions. Accordingly, the Group's sales through its marketing and trading arm are also considered to constitute revenue from contracts with customers in accordance with the requirements of IFRS 15.

#### **Commentary**

##### *Performance obligations and other key contractual terms*

IFRS 15 requires an entity to provide more descriptive information about its performance obligations. IFRS 15 requires an entity to include a description of all of the following: IFRS 15.119

- ▶ When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement
- ▶ The significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the amount of consideration is variable and whether the estimate of variable consideration is typically constrained in accordance with IFRS15) IFRS15.56-58
- ▶ The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent)
- ▶ Obligations for returns, refunds and other similar obligations
- ▶ Types of warranties and related obligations

The Group provided the required information in this section of the notes for illustrative purposes. Entities may also decide to disclose the required information as part of its disclosure of significant accounting policies.

##### *Market based pricing and assessment of allocation of variable consideration*

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Qualifying variable consideration is included in the transaction price. IFRS 15 requires an entity to estimate the amount of variable consideration to which it expects to be entitled and apply a constraint. For a commodity contract that uses market- or index-based pricing, an entity needs to estimate and include in the transaction price the amount of variable consideration for which it is probable that a significant reversal in the cumulative amount of revenues recognised will not occur when the uncertainty related to the market- or index-based pricing is resolved. That is, an entity includes in the transaction price variable consideration to the extent it determines that it is probable that a significant reversal will not occur.

The standard provides an allocation exception that allows an entity to allocate variable consideration (e.g., the market price) to one or more (but not all) performance obligations (i.e., the distinct commodities transferred in that period) if certain criteria are met, instead of using the relative stand-alone selling price method. Entities that qualify for this exception may apply it regardless of whether they determine that each barrel of oil or GJ of gas is a separate performance obligation or part of a series of distinct goods or services that represent a single performance obligation. Most common commodity sales contracts with market- or index- based pricing terms satisfy the criteria for this allocation exception because the variable consideration relates specifically to an entity's efforts to transfer the distinct commodity units. Under the allocation exception, the entity recognises revenue in the period that control of the commodity (i.e., the distinct good or service) is transferred to the customer.

##### *Assessing whether a good or service is transferred at a point in time or over time*

The standard indicates that an entity must determine, at contract inception, whether it will transfer control of a promised good or service over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

An entity transfers control of a good or service over time if one of the following criteria are met:

- ▶ As the entity performs, the customer simultaneously receives and consumes the benefits provided by the entity's performance. IFRS 15.32
- ▶ The entity's performance creates or enhances an asset (e.g., work in progress) that the customer controls as the asset is created or enhanced.
- ▶ The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. IFRS 15.35

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting policy - revenue from contracts with customers *continued*

##### **Commentary *continued***

If an entity is unable to demonstrate that control transfers over time, the presumption is that control transfers at a point in time.

The transaction price allocated to performance obligations satisfied at a point in time is recognised as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognised as revenue as the performance obligation is satisfied. To do this, the standard requires an entity to select a single revenue recognition method (i.e., measure of progress) that faithfully depicts the pattern of the transfer of control over time (i.e., an input method or an output method).

In the case of the Group, the revenue is considered to transfer at a point in time, being when the product is physically transferred into a vessel, pipe or other delivery mechanism and the customer accepts the product. Typically, products such as crude oil, condensate, naphtha and other crude oil by-products will be transferred at a point in time.

For entities that sell natural gas or ethane, further consideration of the timing of satisfaction of performance obligations will be required. In some instances, gas can be stored and hence the product is not simultaneously received and the benefits consumed. This may be the case when the product is being stored for liquefied natural gas (LNG) production or in an underground storage cavern and, in these instances, entities would typically determine that control transfers at a point in time. However, if the Group was selling gas directly to a gas-fired power station and the gas was being simultaneously received and consumed by the customer, the Group might determine that control transfers over time. Individual fact patterns must be considered.

##### *Assessing the treatment of revenue from PSAs*

The Group earns a share of production from PSAs and sells the crude oil and petroleum products to customers. In the Group's contractual arrangements, the customer is considered to meet the definition of a customer in accordance with IFRS 15, and accordingly the transactions are within the scope of IFRS 15.

As set out in [Note 3.A\(iv\)](#), under the current PSAs, the Group accounts for its share of revenues net of the profit oil sold which is considered to constitute payment of corporate income tax imposed upon and due by the Group. Further illustrative disclosures on the treatment under IFRS 15 is set out in Appendix 2.

##### *Accounting for output arising from a joint operation*

A topical issue raised during the implementation of IFRS 15 is how a joint operator (as defined in IFRS 11) accounts for output arising from a joint operation when the output it receives in a reporting period is different to the output to which it is entitled. In March 2019, the IFRS Interpretations Committee (the Interpretations Committee) issued an agenda decision setting out that the joint operator recognises revenue only to the extent that it depicts the transfer of output to its customers in each reporting period (i.e., revenue recognised applying IFRS 15). This means in a joint operation in the oil and gas industry, the joint operator only recognises revenue for the output that it has sold to the customer (as defined in IFRS 15), regardless of what output the joint operator is entitled to. The Interpretations Committee concluded that existing IFRSs provide an adequate basis for a joint operator to determine its revenue from the sale of output arising from a joint operation. Consequently, the Interpretations Committee decided not to add this matter to its standard-setting agenda.

Sales by a joint operator to external customers are typically within the scope of IFRS 15. Revenue is, therefore, recognised when the entity satisfies its performance obligation by transferring control of a promised good or service (i.e., an asset) to a customer, generally at the point in time that the product is physically transferred into a vessel, pipe or other delivery mechanism and the customer accepts the product.

Accordingly, where a participant in a joint operation has contractual arrangements with customers which do fall in the scope of IFRS 15, it should record revenue from those contracts under IFRS 15, that is, based on its actual sales to customers in that period. No adjustments should be recorded in revenue to account for any variance between the actual share of production volumes sold to date and the share of production which the party has been entitled to sell to date.

*IFRS 15.31*

If revenue is recognised based on actual sales to customers in the period, and costs are based on invoiced costs to the participants in a joint operation in proportion to their equity interest, there will be a mismatch between the proportion of revenue lifted and sold and the proportion of costs borne.

Entities may determine that it is appropriate to adjust production costs to align volumes for which production costs are recognised with volumes sold (for which revenue has been recognised in accordance with IFRS 15). The accounting for the adjustments to cost of goods sold will depend on whether the imbalances are settled between/among joint operation participants in cash or by physical settlement, as well as whether the joint operation is in an overlift or underlift position.

In the case of physical settlement, an overlift participant would recognise a liability for future expenses by way of future production costs that are not matched by corresponding future revenues. This overlift liability meets the definition of a provision under IAS 37, as the timing and amount of the settlement are uncertain.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting policy - revenue from contracts with customers *continued*

##### **Commentary *continued***

The overlift liability is recorded at the market value or cost of the production imbalance, depending on whether the overlift liability is considered to represent: i) a provision for production costs attributable to the volumes sold in excess of currency entitlement (which would likely be recorded at cost); or, ii) an obligation for physical delivery of petroleum product (taken out of the entity's future entitlements) for which fair value measurement may be more appropriate.

Conversely, an underlift participant may recognise an underlift asset depending on whether the underlift participant considers they have: i) a right equivalent to a prepaid commodity purchase; or ii) a right to additional physical inventory, and therefore, applies IAS 2 by analogy. Consistent with IAS 2, an underlift asset would be measured at the lower of cost or net realisable value, or otherwise at net realisable value, if there is a well-established industry practice.

IAS 2.9  
IAS 2.3(a)

If an overlift or underlift adjustment is recorded in cost of goods sold at fair value, this will result in the joint operator's gross margin reflecting the gross margin that would be earned based on its entitlement interest. If an adjustment were recorded through cost of goods sold at cost, the gross margin shown would reflect the gross margin attributed to the volumes actually sold to customers.

In some instances, not accounting for the effects of imbalances has been justified on the grounds that operating costs for the period should be expensed as incurred because they relate to the period's production activity and not to the revenues recognised.

In the case of cash balancing, the underlift asset or overlift liability meets the definition of a financial asset or financial liability respectively, in accordance with IAS 32 and therefore, should be accounted for in accordance with IFRS 9. The initial recognition of that financial asset or financial liability would be at fair value. Depending on the designation of the financial asset or financial liability, subsequent measurement would be either at amortised cost or fair value.

We recommend disclosure of the accounting treatment adopted in respect of this matter, the assumptions used and judgements made, be included in 2019 financial reports. This includes judgements made and assumptions used with respect to any adjustment recorded to costs of goods sold, to aide comparability between financial reports in the oil and gas sector.

##### *Additional disclosures required under IFRS 15*

There are some additional IFRS 15 disclosure requirements that would be required to be included were the underlying business of the Group more complex. Examples include the impact of variable consideration and the exercise of the constraint on variable consideration, or greater detail on the allocation of the transaction price where more than one performance obligation exists within the contract.

IFRS 15 requires disclosure of "revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period" and "revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods". Entities can present this in a tabular or narrative format. In this instance, there was no revenue recognised for amounts that were included in contract liability balances at the beginning of the period, nor were there any amounts recognised for performance obligations satisfied or partially satisfied in previous periods.

IFRS15.116

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.3 Revenue from contracts with customers *continued*

#### **3.3C Significant judgements, estimates and assumptions**

Judgement is required in determining when and how much revenue to recognise from contracts with customers. While the Group has determined that all revenue from contracts with customers is earned at a point in time, there is judgement involved in this consideration. Contractual arrangements for the sale of different products or with different terms may result in revenue being recognised over time.

There is also judgement involved in assessing whether the Group is the principal or agent in revenue transactions. In determining that the Group is acting as principal, the terms of the agreements were carefully considered and it was concluded that the Group controls the product before it is transferred to the customer. In alternate arrangements, the Group could be determined to be acting as agent.

Under the terms of existing contracts the Group has determined that shipping or transportation services are not being provided to the customer, and that the only performance obligations are for the sale of crude oil and petroleum products. Judgement is required in determining whether shipping is being provided as a service, and this impacts on the identification of performance obligations, whether all performance obligations are recognised at a point in time or over time, and the overall timing of revenue recognition.

Finally, judgement is required to determine whether the contractual arrangements contain only variable consideration, or also embedded derivatives, and if variable consideration, whether to exercise the constraint.

#### **Commentary**

The judgements set out above are relatively straightforward for the Group because the underlying contractual arrangements are non-complex. In the event of complex contractual arrangements, each of these items could require significant judgement. Variable consideration where provisional pricing exists in contracts can also require significant estimates to be made. Where these apply the estimates should be disclosed. Refer [Good Group \(International\) Limited 2019](#) or [Good Mining Limited 2019](#) for examples of disclosures where the assumptions and estimates involved in revenue recognition under IFRS 15 are significant.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.4 Income tax

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

IAS 12.79

	2019	2018	
	US\$ millions	US\$ millions	
<b>Consolidated statement of profit or loss and other comprehensive income</b>			
<i>Income tax expense</i>			
Current income tax:			
Current income tax charge	657	535	IAS 12.80(a)
Adjustments in respect of current income tax of previous years	7	(24)	IAS 12.80(b)
Deferred income tax:			
Relating to origination and reversal of temporary differences	(30)	(78)	IAS 12.80(c)
<b>Income tax expense</b>	<b>634</b>	<b>433</b>	
<i>Petroleum revenue tax expense</i>			
Current income tax:			
Current income tax charge	174	107	IAS 12.80(a)
Deferred income tax:			
Relating to origination and reversal of temporary differences	(26)	(11)	IAS 12.80(c)
<b>Petroleum revenue tax expense</b>	<b>148</b>	<b>96</b>	
<b>Total tax expense reported in the statement of profit or loss and other comprehensive income</b>	<b>782</b>	<b>529</b>	

A reconciliation between tax expense and the accounting profit multiplied by Petroland's domestic tax rate for the years ended 31 December 2019 and 2018 is, as follows:

IAS 12.81(c)(i)

	2019	2018
	US\$ million	US\$ million
<b>Accounting profit before income tax</b>	<b>1,865</b>	<b>1,449</b>
At Petroland's statutory income tax rate of 30% (2018: 30%)	559	435
Non-deductible expenses	68	22
Under/(over) provided in prior years	7	(24)
<b>At the effective income tax rate of 42% (2018: 37%)</b>	<b>634</b>	<b>433</b>
Petroleum revenue tax (net of income tax benefit)	148	96
<b>Total tax expense reported in the consolidated statement of profit or loss and other comprehensive income</b>	<b>782</b>	<b>529</b>

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.4 Income tax *continued*

#### Commentary

The oil and gas industry is subject to numerous fiscal regimes throughout the world. These fiscal regimes may include royalties, production taxes, excise taxes, petroleum taxes, revenue taxes and others. As such, it is necessary to determine which of these fiscal regimes represent income taxes and are therefore subject to the accounting requirements in IAS 12, and which are not income taxes and therefore fall outside the scope of IAS 12. Usually this is required to be considered on a case-by-case basis.

Determining whether a production tax is production-based or profit-based is often not straightforward. Some are clearly not income taxes, while others have some of the characteristics of an income tax. In determining whether a particular production tax meets the definition of an income tax under IAS 12, an entity will need to assess whether or not the tax is based on (or closely enough linked to) net profit for the period. If it does not meet the definition of an income tax, an entity should develop an accounting policy under the hierarchy in IAS 8.

#### Petroleum revenue tax disclosures

The income tax note disclosures for the Group illustrate a petroleum revenue tax which was determined to meet the criteria to be treated as an income tax under IAS 12. Where a petroleum revenue tax is to be treated as an income tax for financial statement purposes, it is required to be recorded as a below the line tax expense (i.e., on the same basis as income taxes) and tax-effect accounting (including recognition of deferred tax balances and associated disclosures) is required.

The disclosures for the Group assume that the petroleum revenue tax has always applied. Therefore, these illustrative financial statements do not provide any example disclosures that would be required when a new tax regime would first apply and the related deferred income tax balances are first recognised.

#### Deferred tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income		IAS 12.81(gXi)
	2019 US\$ million	2018 US\$ million	2019 US\$ million	2018 US\$ million	IAS 12.81(gXii)
<b>Income tax related</b>					
<b>Deferred tax liabilities</b>					IAS12.81(gXi)
Other plant and equipment	(111)	(146)	35	(18)	
Exploration and evaluation costs capitalised	(77)	(21)	(56)	2	
Right-of-use assets	(34)	–	13	–	
Oil and gas properties	(189)	(157)	(32)	(8)	
	<u>(411)</u>	<u>(324)</u>			
<b>Deferred tax assets</b>					
Lease liabilities	33	–	(13)	–	
Losses available for offset against future taxable income	80	57	23	(54)	
	<u>113</u>	<u>57</u>			
<b>Deferred tax benefit/(expense)</b>			<u>(30)</u>	<u>(78)</u>	
<b>Deferred tax liabilities (net) relating to income tax</b>	<u>(298)</u>	<u>(267)</u>			
<b>Petroleum revenue tax related</b>					
<b>Deferred tax liabilities</b>					
Exploration and evaluation assets	(37)	(22)	(15)	6	
Oil and gas properties	(54)	(40)	(14)	(17)	
	<u>(91)</u>	<u>(62)</u>			
<b>Deferred tax assets</b>					
Other	3	–	3	–	
	<u>3</u>	<u>–</u>			
<b>Deferred tax benefit/(expense)</b>			<u>(26)</u>	<u>(11)</u>	
<b>Deferred tax liabilities (net) relating to petroleum revenue tax</b>	<u>(88)</u>	<u>(62)</u>			



# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.4 Income tax *continued*

#### Deferred tax *continued*

##### Commentary

The Group's lease payments are deductible upon payment for tax purposes. In accounting for the deferred tax relating to the lease, the Group considers both the lease asset and liability separately. The Group separately accounts for the deferred taxation on the taxable temporary difference and the deductible temporary difference, which upon initial recognition are equal and offset to zero. Deferred tax is recognised on subsequent changes to the taxable and temporary differences.

Deferred tax reflected in the consolidated statement of financial position, as follows:

	2019	2018
	US\$ million	US\$ million
Deferred tax assets	116	57
Deferred tax liabilities	(502)	(386)
<b>Deferred tax liabilities (net)</b>	<b>(386)</b>	<b>(329)</b>

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilised.

In addition to recognised deferred tax assets, the Group has also incurred indefinitely available tax losses of US\$234 million (2018: US\$234 million) to carry-forward against future taxable income of the subsidiaries in which the losses arose. However, these losses relate to subsidiaries that have a history of losses, and have no tax planning opportunities available to support (either partially or in full) the recognition of the losses as deferred income tax assets. Moreover, these losses may not be used to offset taxable profits elsewhere in the Group.

IAS  
12.81(e)  
IAS 12.87

The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognised, aggregate to US\$58 million (2018: US\$94 million).

IAS  
12.81(f)

There are no income tax consequences attached to the payment of dividends by the Group to its shareholders.

No deferred tax asset has been recognised on decommissioning provisions (refer to [Note 4.6A\(ii\)](#)) for further details of this accounting policy).

IAS 12.82A

#### 3.4A Accounting policy - taxes

##### (i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

IAS 12.46

Current income tax relating to items recognised directly in OCI or equity is recognised in OCI or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

IAS 12.61A

##### (ii) Deferred tax

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

IAS 12.15

IAS  
12.22(c)

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

IAS 12.39



# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.4 Income tax *continued*

#### 3.4A Accounting policy - taxes *continued*

##### (ii) *Deferred tax continued*

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

IAS 12.34

- ▶ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilised

IAS 12.24

IAS 12.44

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

IAS 12.56

IAS 12.37

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

IAS 12.47

Deferred tax relating to items recognised directly in other comprehensive income or equity is recognised in OCI or equity and not in profit or loss.

IAS 12.61A

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

IAS 12.74

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognised in the statement of profit or loss and other comprehensive income.

IAS 12.68

##### (iii) *Royalties, resource rent tax and revenue-based taxes*

IAS 12.2

In addition to corporate income taxes, the Group's consolidated financial statements also include and recognise as income taxes, other types of taxes on net income such as certain royalties, resource rent taxes and revenue-based taxes.

Royalties, resource rent taxes and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than physical quantities produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements and other types of taxes that do not satisfy these criteria are accrued and included in cost of sales. The revenue taxes payable by the Group are considered to meet the criteria to be treated as part of income taxes.

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.4 Income tax *continued*

#### 3.4A Accounting policy - taxes *continued*

##### Commentary

If the tax is based on a fixed amount per unit produced or as a percentage of the value of the reserves produced, then it may not meet the definition of an income tax under IAS 12. In such cases, the normal principles of liability recognition under IAS 37 apply in recognising the tax charge.

Another consideration is whether the royalty or tax (that does not meet the definition of an income tax) should be presented as a cost of production or whether it should be deducted in arriving at revenue. IFRS 15 states that the 'transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties'. Given that excise duties and production taxes are aimed at taxing the production of reserves rather than the sale of reserves, they are considered to be a tax on extractive activities rather than a tax collected by an oil and gas company on behalf of the government. Based on this argument, the tax should be presented as a production cost.

However, it could also be argued, particularly when the excise duty or production tax is payable in kind, that the oil and gas company never receives any of the benefits associated with the production of the associated reserves. Hence, it would be more appropriate to present revenue net of the production or severance tax as it is, in substance, the same as a royalty payment. Furthermore, any petroleum leases, concession agreements and production sharing contracts require the payment of a royalty to the original owner of the petroleum reserves or the government. Historically, many companies have presented revenue net of those royalties that are paid in kind as they never received any inflow of economic benefits. However, an entity that is required to sell the physical product in the market and remit the net proceeds (after deduction of certain costs incurred) to the royalty holder, may be exposed to risks and rewards of ownership to such an extent that it is appropriate to present revenue on a gross basis and include the royalty payment within cost of sales. The fact pattern of each individual royalty, excise duty or production tax payable should be evaluated to determine the most appropriate accounting treatment. IAS 18.8

##### (iv) PSAs

According to the PSAs, the share of the profit oil to which the government is entitled in any calendar year, in accordance with the terms of the PSAs, is deemed to include a portion representing the corporate income tax imposed upon and due by the Group. This amount will be paid directly to the government on behalf of the Group to the appropriate tax authorities. This portion of income tax and revenue is presented net in the statement of profit or loss and other comprehensive income.

##### Commentary

Many PSAs provide that the income tax to which the contractor is subject is deemed to have been paid to the government as part of the payment of profit oil. Such notional income tax could be presented either net or gross. On one hand, the disadvantage of presenting gross is that the combined production attributed to the entity and that attributable to the government exceeds the total quantity of oil that is actually produced. On the other hand, if both of the following apply, then the entity would have a legal liability to pay the tax until the date on which government pays the tax on its behalf:

- (1) The host country has a well-established income tax regime that falls under the authority of the government
- (2) The PSA requires an income tax return to be filed

In such cases, it may be appropriate to present revenue and income tax on a gross basis.

##### (v) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- ▶ Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- ▶ Receivables and payables that are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

##### Commentary

IFRS 15 Appendix A states that the "transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes)".

# Notes to the consolidated financial statements *continued*

## Section 3. Results for the year *continued*

### 3.4 Income tax *continued*

#### 3.4A Accounting policy - taxes *continued*

##### **Significant judgements, estimates and assumptions**

Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

### 3.5 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effects on earnings.

	2019	2018	<i>IAS 33.70(c)</i>
Net profit attributable to ordinary shareholders (US\$ million)	1,083	920	<i>IAS 33.70(a)</i>
Weighted average number of ordinary shares (number of shares – million)	<u>1,551</u>	<u>958</u>	<i>IAS 33.70(b)</i>
<b>Basic earnings per ordinary share (US\$ cents per share)</b>	<b><u>0.70</u></b>	<b><u>0.96</u></b>	

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

### 3.6 Dividends paid and proposed

	2019	2018	
	US\$ million	US\$ million	
<b>Cash dividends on ordinary shares declared and paid:</b>			
Interim dividend for 2019: US\$0.16 per share (2018: US\$0.13 per share)	245	110	
Final dividend for 2018: US\$0.07 per share (2016: US\$0.05 per share)	105	45	<i>IAS 1.107</i>
	<b><u>350</u></b>	<b><u>155</u></b>	
<b>Proposed dividends on ordinary shares:</b>			
Final cash dividend for 2019: US\$0.09 per share (2018: US\$0.07 per share)	<b><u>140</u></b>	<b><u>105</u></b>	<i>IAS 1.137(a)</i>

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital

This section provides additional information about how the Group invests and manages its capital. This section contains:

- ▶ Reconciliations of movements of significant capital balances (Notes 4.1 to 4.4)
- ▶ Impairment testing of long-term non-financial assets (Note 4.5)
- ▶ Provisions (Note 4.6)
- ▶ Analysis of capital expenditure to which the Group is committed (Note 4.7)

### 4.1 Oil and gas exploration and evaluation assets

	<b>US\$ million</b>	<i>IFRS 6.23</i> <i>IFRS 6.24(b)</i> <i>IFRS 6.25</i>
<b>Cost as at 1 January 2018</b>	<b>361</b>	
Additions	293	
Unsuccessful exploration expenditure derecognised	(75)	
Transfer to oil and gas properties	(55)	
<b>Cost as at 31 December 2018</b>	<b>524</b>	
Additions	358	
Acquisition of subsidiary (Note 7.2)	72	
Farm-out of interest in Grizzly	(22)	
Unsuccessful exploration expenditure derecognised	(90)	
Transfer to oil and gas properties	(71)	
<b>Cost as at 31 December 2019</b>	<b>771</b>	
<b>Provision for impairment as at 1 January 2018</b>	<b>(17)</b>	
Impairment charge for the year	(6)	
Reversal of previously recognised impairments	–	
<b>Provision for impairment as at 31 December 2018</b>	<b>(23)</b>	
Impairment charge for the year	(5)	
Reversal of previously recognised impairments	16	
<b>Provision for impairment as at 31 December 2019</b>	<b>(12)</b>	
<b>Net book value as at 31 December 2018</b>	<b>501</b>	
<b>Net book value as at 31 December 2019</b>	<b>759</b>	

### Commentary

#### Specifying the level at which exploration and evaluation (E&E) assets are assessed for impairment

When deciding the level at which E&E assets should be assessed for impairment rather than introduce a special CGU for E&E assets, IFRS 6 allows CGUs to be aggregated in a way that is consistent with the approach applied to goodwill in IAS 36. Therefore, an entity should determine an accounting policy for allocating E&E assets to CGUs, or CGU groups, for the purpose of assessing them for impairment. IFRS 6 requires that each CGU, or group of CGUs, to which an E&E asset is allocated should not be larger than an operating segment determined in accordance with IFRS 8.

Hence, the level identified by an entity for the purposes of testing E&E assets for impairment may be comprised of one or more CGUs.

#### Reversal of impairment losses

Any impairment loss on an E&E asset recognised in accordance with IFRS 6 needs to be reversed when the requirements specified in IAS 36 have been met. An impairment loss recognised in prior periods for an asset other than goodwill must be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset must be increased to its recoverable amount. However, such reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

IAS 36.109-123

In some circumstances, when an entity recognises an impairment of an E&E asset, it also needs to derecognise the remaining E&E asset if no future economic benefits are expected. Refer to the commentary in Note 4.1 for further information.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.1 Oil and gas exploration and evaluation assets *continued*

#### 4.1A Accounting policy - Oil and gas exploration and evaluation expenditure

Oil and gas exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

IFRS 6.23,  
IFRS 6.5,  
IFRS 6.18-22

##### **(i) Pre-licence costs**

Pre-licence costs are expensed in the period in which they are incurred.

##### **(ii) Licence and property acquisition costs**

Exploration licence and acquisition costs are capitalised in intangible assets.

Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of profit or loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

##### **(iii) Exploration and evaluation costs**

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

IFRS 6.23, IFRS  
6.15, IFRS 6.9

Geological and geophysical costs are recognised in the statement of profit or loss and other comprehensive income, as incurred.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of profit or loss and other comprehensive income.

IFRS 6.18

When proved reserves of oil and gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. Other than licence costs, no amortisation is charged during the exploration and evaluation phase.

IFRS 6.17

For exchanges/swaps or parts of exchanges/swaps that involve only exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognised.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.1 Oil and gas exploration and evaluation assets *continued*

#### 4.1A Accounting policy - Oil and gas exploration and evaluation expenditure *continued*

##### Commentary

###### *Presentation of exploration and evaluation assets*

IFRS 6 states E&E assets are to be classified as either tangible or intangible according to the nature of the assets acquired and the classification must be applied consistently. The Group classifies E&E assets as intangible, however, practice in the industry is diverse. It is important that whatever approach is adopted, an entity must apply it consistently and clearly disclose it.

###### *Assets exchanges/swaps*

Accounting for E&E assets, and therefore also accounting for exchanges/swaps involving only E&E assets, falls within the scope of IFRS 6. As IFRS 6 does not directly address accounting for asset exchanges/swaps, it is necessary to consider its hierarchy of guidance in the selection of an accounting policy.

IFRS 6 does not require an entity to look at other standards and interpretations that deal with similar issues or the guidance in the IASB's Framework. Instead, it allows entities to develop their own accounting policies, or use the guidance issued by other standard setters, thereby effectively allowing entities to continue using accounting policies that they applied under their previous national GAAP. Therefore, many entities, especially those that consider that they can never determine the fair value of E&E assets reliably, have selected an accounting policy under which they account for E&E assets obtained in a swap transaction at the carrying amount of the asset given up.

##### Significant judgements, estimates and assumptions

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is, in itself, an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

##### *(iv) Farm-outs – in the exploration and evaluation phase*

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the Group as a gain on disposal.

##### Commentary

###### **Accounting for farm-ins/farm-outs in the E&E phase**

A farm-out (from the viewpoint of the transferor) or a farm-in (from the viewpoint of the transferee) is defined in the former UK OIAC SORP (paragraph 16) as, "the transfer of part of an oil and gas interest in consideration for an agreement by the transferee (farmee) to meet, absolutely, certain expenditure which would otherwise have to be undertaken by the owner (farmor)". Farm-in transactions generally occur in the exploration or development phase and are characterised by the transferor (i.e., farmor) giving up future economic benefits, in the form of reserves, in exchange for a (generally) permanent reduction in future funding obligations.

IFRS 6.4

There is currently no specific guidance in IFRS in accounting for this type of farm-in. IFRS 6 deals with accounting for E&E expenditure. IFRS 6 sets out that IFRS 6 does not "address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources". This leaves open the question whether farm-in arrangements can ever fall within the scope of IFRS 6. However, as a farm-in arrangement in the E&E phase leads to the acquisition of an E&E asset by the farmee and a disposal by the farmor, we believe that a farm-in arrangement would fall within the scope of IFRS 6.

Hence, in developing an accounting policy for such arrangements, IFRS 6 effectively provides two options. Either:

- (a) Develop an accounting policy under IAS 8; or
- (b) Develop an accounting policy under IFRS 6

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.1 Oil and gas exploration and evaluation assets *continued*

#### 4.1A Accounting policy - Oil and gas exploration and evaluation expenditure *continued*

##### *(iv) Farm-outs – in the exploration and evaluation phase*

###### **Commentary *continued***

The exemption provided by IFRS 6 in not having to apply the hierarchy within IFRS when determining the accounting policy for E&E assets potentially provides a reasonable degree of flexibility. Consequently, in practice, many entities use the second option and apply an accounting policy to farm-in arrangements in the E&E phase that is based on their previous national GAAP.

Accounting policies for farm-in arrangements in the E&E phase that are based on an entity's previous national GAAP will often require that:

- ▶ The farmee recognises its expenditure under the arrangement in respect of its own interest and that retained by the farmor, as and when the costs are incurred. The farmee accounts for its expenditures under a farm-in arrangement in the same way as directly incurred E&E expenditure.
- ▶ The farmor accounts for the farm-out arrangement, as follows:
  - ▶ The farmor does not record any expenditure made by the farmee on its behalf
  - ▶ The farmor does not recognise a gain or loss on the farm-out arrangement, but rather redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained
  - ▶ Any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal

If an entity applies its previous GAAP accounting policy in respect of farm-in arrangements, we would expect the entity also to make the farm-in disclosures required by its previous GAAP and those required by IAS 1, paragraphs 122 and 125.

###### **Exploration and evaluation costs**

###### **Successful efforts method**

Under the successful efforts method, only those costs that lead directly to the discovery, acquisition, or development of specific discrete mineral reserves are capitalised and become part of the capitalised costs of the cost centre. Costs that are known to fail to meet this criterion (at the time of incurrence) are generally charged to the statement of profit or loss as an expense in the period they are incurred, although some interpretations of the successful efforts method would also capitalise the cost of unsuccessful development wells.

Under the successful efforts method, an entity will generally consider each individual mineral lease, concession, or production sharing contract as a cost centre.

When an entity applies the successful efforts method under IFRS, it will need to account for prospecting costs incurred before the E&E phase under IAS 16 or IAS 38. As the economic benefits are highly uncertain at this stage of a project, prospecting costs will typically be expensed as incurred. Costs incurred to acquire undeveloped mineral rights, however, should be capitalised under IFRS if an entity expects an inflow of future economic benefits.

To the extent that costs are incurred within the E&E phase of a project, IFRS 6 does not prescribe any recognition and measurement rules. Therefore, it would be acceptable for such costs:

- (1) To be recorded as assets and written off when it is determined that the costs will not lead to economic benefits
- (2) To be expensed as incurred if the outcome is uncertain

*IFRS 6.17*

In accordance with IFRS 6, once technical feasibility and commercial viability is demonstrated, the capitalised exploration costs should be transferred to property, plant and equipment or intangibles, as appropriate, after being assessed for impairment.

If technical feasibility and commercial viability is uncertain, or not immediately obvious, then costs can remain capitalised while an entity is still actively engaged in the exploration or evaluation effort. If the exploration or evaluation effort has ceased, but there is potential for future benefits, e.g., through sale, although this is subject to factors outside of this particular exploration and evaluation effort, the exploration and evaluation phase is over. The capitalised exploration and evaluation costs should then be tested for impairment and reclassified into property, plant and equipment or intangible assets.

If it is determined that no commercial reserves are present, then the costs capitalised should be written off.

Costs incurred after the E&E phase should be accounted for in accordance with the relevant IFRS (i.e., IAS 16 and IAS 38).

###### **Other methods of accounting for exploration and evaluation costs**

###### **Full cost method**

The full cost method under most national GAAPs requires that all costs incurred in prospecting, acquiring mineral interests, exploration, appraisal, development and construction are accumulated in large cost centres. For example, costs may be accumulated for each individual country, for groups of countries, or for the entire world. However, IFRS 6 does not permit application of the full cost method outside the E&E phase.

There are several other areas in which application of the full cost method under IFRS is restricted because:

- ▶ While the full cost method under most national GAAPs requires application of some form of ceiling test, IFRS 6 requires, when impairment indicators are present, an impairment test to be performed in accordance with IAS 36



# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.1 Oil and gas exploration and evaluation assets *continued*

#### 4.1A Accounting policy - Oil and gas exploration and evaluation expenditure *continued*

##### *(iv) Farm-outs – in the exploration and evaluation phase*

###### **Commentary *continued***

###### **Full cost method *continued***

- ▶ IFRS 6 requires E&E assets to be classified as tangible or intangible assets according to the nature of the assets, and even when an entity accounts for E&E costs in relatively large pools, it will still need to distinguish between tangible and intangible assets
- ▶ Once the technical feasibility and commercial viability of extracting mineral resources are demonstrable, IFRS 6 requires that E&E assets shall no longer be classified as such and need to be assessed for impairment under IAS 36, and any impairment loss recognised (as appropriate), and then reclassified out of E&E assets in the statement of financial position and accounted for under IAS 16 or IAS 38. This means it is not possible to account for successful and unsuccessful projects within one cost centre or pool

For the reasons above, it is not possible to apply the full cost method of accounting under IFRS without making very significant modifications in the application of the method. An entity may wish to use the full cost method as its starting point in developing its accounting policy for E&E assets under IFRS. However, it would rarely be appropriate to describe the resulting accounting policy as a full cost method because key elements of the full cost method are not permitted under IFRS.



# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.2 Oil and gas properties

	<b>Total</b>	
	<b>US\$ million</b>	
		IAS 1.78(a)
		IAS 1.78(a)
		IAS 16.73(e)
<b>Cost as at 1 January 2018</b>	<b>3,877</b>	IAS 16.73(d)
Additions	1,357	IAS 16.73(e)(i)
Transferred from exploration and evaluation assets	55	
Change in decommissioning provision	179	IAS 16.73(e)(ix)
Disposals	(75)	IAS 16.73(e)(ix)
Deletions	(36)	IAS 16.73(e)(ix)
<b>Cost as at 31 December 2018</b>	<b>5,357</b>	IAS 16.73(e)(ix)
		IAS 16.73(d)
Additions	1,108	
Acquisition of subsidiary (Note 7.2)	487	IAS 16.73(e)(i)
		IAS 16.73(e)(iii)
Transferred from exploration and evaluation assets	71	IAS 16.73(e)(ix)
Change in decommissioning provision	230	IAS 16.73(e)(ix)
Disposals	(102)	IAS 16.73(e)(ix)
Deletions	(17)	IAS 16.73(e)(ix)
<b>Cost as at 31 December 2019</b>	<b>7,134</b>	IAS 16.73(d)
<b>Depletion and impairment as at 1 January 2018</b>	<b>(1,423)</b>	IAS 16.73(d)
		IAS
Charge for the year	(285)	16.73(e)(vii)
Provision for impairment	(9)	
Disposals	35	IAS 16.73(e)(v)
Deletions	31	IAS 16.73(e)(ix)
<b>Depletion and impairment as at 31 December 2018</b>	<b>(1,651)</b>	IAS 16.73(d)
		IAS
Charge for the year	(551)	16.73(e)(vii)
Provision for impairment	(33)	
Disposals	32	IAS 16.73(e)(v)
Deletions	12	IAS 16.73(e)(ix)
<b>Depletion and impairment as at 31 December 2019</b>	<b>(2,191)</b>	IAS 16.73(d)
<b>Net book value as at 31 December 2018</b>	<b>3,706</b>	
<b>Net book value as at 31 December 2019</b>	<b>4,943</b>	

Borrowing costs relating to drilling of development wells that have been capitalised as part of oil and gas properties during the period amount to US\$10 million (2018: US\$1 million), at a weighted average interest rate of 5.8% (2018: 5.7%).

IAS 23.26(a),(b)

The net book value at 31 December 2019 includes US\$756 million (2018: US\$865 million), in respect of development assets under construction which are not being depreciated.

IAS 16.74(b)

Cash outflow for the purchases of oil and gas properties was US\$1,108 million (2018: US\$1,357 million).

Please refer to Note 4.5 for the details on impairment testing of oil and gas properties.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.2 Oil and gas properties

#### 4.2A Accounting policy - Oil and gas properties - assets in development

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' which is a subcategory of 'Oil and gas properties' once the work completed to date supports the future development of the asset and such development receives appropriate approvals. After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within 'Assets in development'.

IFRS 6.5,  
IFRS 6.17,

Development expenditure is net of proceeds from the sale of oil or gas produced during the development phase to the extent that it is considered integral to the development of the asset. Any costs incurred in testing the assets to determine whether they are functioning as intended, are capitalised, net of any proceeds received from selling any product produced while testing. Where these proceeds exceed the cost of testing, any excess is recognised in the statement of profit or loss and other comprehensive income.

When a development project moves into the production stage, all assets included in 'Assets in development' are then transferred to 'Producing assets' which is also a sub-category of 'Oil and gas properties'. The capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to 'Oil and gas properties' asset additions, improvements or new developments.

#### 4.2B Accounting policy - Oil and gas properties - producing assets and other property, plant and equipment

##### (i) Initial recognition

'Oil and gas properties' and 'Other property, plant and equipment' are stated at cost, less accumulated depreciation and accumulated impairment losses.

IAS 16.73(a)

IAS 16.15

IAS 16.30

The initial cost of an asset comprises its purchase price or construction cost (if the asset was previously classified as assets in development), any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

IAS 16.16

##### (ii) Depreciation/amortisation

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case, the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved developed and undeveloped reserves of the relevant area. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

IAS 16.73(b)

IAS 16.73(c)

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, which is generally 20 years for refineries, and major inspection costs are amortised over three to five years, which represents the estimated period before the next planned major inspection. Property, plant and equipment held under leases are depreciated over the shorter of lease term and estimated useful life.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.2B Accounting policy - Oil and gas properties producing assets and other property, plant and equipment *continued*

#### (ii) Depreciation/amortisation *continued*

##### Commentary

##### *Reserves base for unit-of-production method of depreciation*

An important decision in applying the unit-of-production method is the selection of the reserves base that will be used. IFRS does not provide guidance on the selection of an appropriate reserves base or cost centre for the application of the unit-of-production method. The following reserves bases could, in theory, be used:

- (a) Proved developed reserves
- (b) Proved developed and undeveloped reserves
- (c) Proved and probable reserves

It is important that, whatever reserves base is chosen, the costs applicable to that category of reserves are included in the depreciable amount to achieve a proper matching of costs and production. For example, if the cost centre is not fully developed, there may be costs that do not apply, in total or in part, to proved developed reserves, which may create difficulties in matching costs and reserves. In addition, some reserve categories will require future costs to bring them to the point where production may begin.

##### *Reserves bases*

An entity preparing its financial statements under IFRS will need to choose between using proved developed reserves, proved developed and undeveloped reserves, and proved and probable reserves as its reserves base. Each of these approaches is acceptable under IFRS. Preparers of financial statements should be aware of the difficulties that exist in ensuring that the reserves base and the costs that are being depreciated correspond. Users of financial statements need to understand that comparability between entities reporting under IFRS may sometimes be limited and need to be aware of the impact that each of the approaches has on the depreciation charge that is reported.

##### *I – Proved developed reserves*

Under some national GAAPs that have (or had) accounting standards for the extractive industries, an entity is required to use proved developed reserves as its reserves base. An entity would therefore calculate its depreciation charge on the basis of actual costs that have been incurred to date. However, the problem often exists that the cost centre includes capitalised costs that relate to undeveloped reserves. To calculate the depreciation charge correctly, it will be necessary to exclude a portion of the capitalised costs from the depreciation calculation.

##### *II – Proved developed and undeveloped reserves*

The International Accounting Standards Committee's (IASC - the predecessor to the IASB) Issues Paper notes that it could be argued that "the choice is either to use: (a) both developed and undeveloped proved reserves and add to the depreciable costs already incurred estimated future development costs applicable to proved undeveloped reserves; or (b) proved developed reserves only and withhold from the depreciation computation those development costs applicable to reserves whose remaining development will occur in the future", but that "it is often difficult to allocate costs that have already been incurred between developed and undeveloped reserves".

Therefore, another approach common under IFRS is to use proved developed and undeveloped reserves as the reserves base for the application of the unit-of-production method. This approach has the advantage that it effectively straight-lines the depreciation charge per unit of production across the different phases of a project. The entity would therefore define its cost pool (i.e., unit of account) as including both assets that it currently owns and certain future investments. Although there is no precedent in IFRS for using such a widely defined unit of account, such an approach is not prohibited. In practice, it has gained a broad level of acceptance within the extractive industries.

##### *III – Proved and probable reserves*

The arguments in favour of using proved and probable reserves as the reserves base in applying the unit-of-production method are similar to those discussed at II above. The IASC's *Summary of Issues: Extractive Industries Paper* (November 2000) summarises the arguments in favour of this approach, as follows:

Proponents of using "proved and probable reserves" as the reserve base use the same arguments given for including proved undeveloped reserves and related future costs in calculating depreciation. They point out that, in a cost centre in which development has only begun, a large part of capitalised prospecting, mineral acquisition, exploration, and appraisal costs may apply to probable reserves. Often in this situation there are large quantities of probable reserves, lacking only relatively minor additional exploration and/or appraisal work to be reclassified as proved reserves. They argue that, in calculating depreciation, it would be possible to defer all costs relating to the probable reserves if either proved developed reserves only, or all proved reserves, were to be used as the quantity on which depreciation is based.

They contend that using probable and proved reserves in the reserve base and including in the depreciable costs any additional costs anticipated to explore and develop those reserves provides more relevant and reliable information."

The main drawbacks of this approach are that:

- (1) Estimates of probable reserves are almost certainly different from actual reserves that will ultimately be developed
- (2) Estimates of the costs to complete the development are likely to be incorrect because of the potentially long time scales involved

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.2B Accounting policy - Oil and gas properties - producing assets and other property, plant and equipment *continued*

#### (ii) Depreciation/amortisation *continued*

##### Commentary *continued*

###### Reserves estimates

The reserves estimate to be used when applying the unit-of-production method of depreciation is the best estimate of the reserves at the beginning of the period. However, a revised and more accurate estimate is often available by the end of the period. It could therefore be argued that, in order to take into account the most recent information, the opening reserves should be calculated by adding the 'closing reserves estimated at the end of the period' to the 'current period's production'. However, reserve estimates might change for a number of reasons, such as:

- (a) More detailed knowledge about existing reserves (e.g., detailed engineering studies or drilling of additional wells)
- (b) New events that affect the physical quantity of reserves (e.g., explosion on the platform)
- (c) Changes in economic assumptions (e.g., higher oil prices)

Generally, it is not appropriate to take account of these events retrospectively. For example, changes in reserves estimates that result from events that took place after the reporting date (such as those under (b) and (c) above) are non-adjusting events that should be accounted for prospectively in accordance with IFRS. Changes in reserve estimates that result from 'new information or new developments' (such as those under (a) above) are not considered to be corrections of errors; instead they are changes in accounting estimates that should be accounted for prospectively under IFRS (IAS 8).

IAS 8.32-38

#### (iii) Farm-outs – outside the exploration and evaluation phase

In accounting for a farm-out arrangement outside the E&E phase, the Group:

- ▶ Derecognises the proportion of the asset that it has sold to the farmee
- ▶ Recognises the consideration received or receivable from the farmee, which represents the cash received and/or the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor, and which is calculated in accordance with IFRS 15
- ▶ Recognises a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is recognised only when the value of the consideration can be determined reliably. If not, then the Group accounts for the consideration received as a reduction in the carrying amount of the underlying assets
- ▶ Tests the retained interests for impairment if the terms of the arrangement indicate that the retained interest may be impaired

The consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is measured in accordance with the requirements for determining the transaction price in IFRS 15.

##### Commentary

As discussed above in [Note 4.1A\(iv\)](#), a farm-in represents the complete acquisition of a proportion of a property. The accounting for such an arrangement will depend on whether the entity is farming into an asset or into an arrangement that is considered a business or results in a joint arrangement.

###### Farmee

Where a farmee farms into an asset, regardless of whether it is or results in the formation of a joint arrangement, the farmee should:

IAS 16.16,  
IAS38.21

- ▶ Recognise an asset that represents the underlying (partially) undeveloped interest acquired at cost in accordance with IAS 16 or IAS 38
- ▶ Recognise a liability that reflects the obligation to fund the farmor's share of the future investment from which the farmee itself will not derive any future economic benefits

Farm-in arrangements can be structured in numerous ways, some requiring payment of a fixed monetary amount, while others are more flexible and state, for example, that capital expenditures over the next five years will be paid for by the farmee regardless of what those amounts may be.

In the latter scenario (i.e., where the farmee pays all capital expenditure incurred over a five year period, regardless of the amount), some argue the farmee should recognise a provision under IAS 37 as the timing and amount of the liability are uncertain [IAS 37]. However, in the former scenario, it could be argued that the liability meets the definition of a financial liability under IAS 32 that should be accounted for in accordance with IFRS 9.

IAS 37.10  
IAS 32.11

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.2B Accounting policy - Oil and gas properties - producing assets and other property, plant and equipment *continued*

#### (iii) Farm-outs – outside the exploration and evaluation phase *continued*

##### Commentary *continued*

###### Farmor

In accounting for a farm-in arrangement, the farmor should:

- ▶ Derecognise the proportion of the asset that it has sold to the farmee consistent with the principles of IAS 16 or IAS 38, with the date of disposal being determined in accordance with IFRS 15; IAS16.67,  
IAS38.112
- ▶ Recognise the consideration received or receivable from the farmee, which represents the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor;
- ▶ Recognise a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. Recognition of a gain would be appropriate only when the value of the consideration can be determined reliably. If not, then the carried party should account for the consideration received as a reduction in the carrying amount of the underlying assets; and IAS 16.71,  
IAS38.113
- ▶ Test the retained interest for impairment if the terms of the arrangement indicate that the retained interest may be impaired.

Under IAS 16 and IAS 38, the amount of consideration to be included in the gain/loss arising from the derecognition of an item of property, plant and equipment or an intangible asset, and, hence, the receivable that is recognised, is determined in accordance with the requirements for determining the transaction price under IFRS 15. Subsequent changes to the estimated amount of the consideration included in the gain or loss calculation must be accounted for in accordance with the requirements for changes in the transaction price in IFRS 15. Any part of the consideration that is receivable in the form of cash will meet the definition of a financial asset under IAS 32, and should be accounted for in accordance with IFRS 9, either at amortised cost or fair value, depending on how the farmor designates the receivable. IAS 16.72,  
IAS38.116  
IAS32.11

###### Amendments to IFRS which may impact farm ins

Historically, where a farmee farmed into a project that was considered to be a business (as defined in IFRS 3) which either was a joint operation or resulted in the formation of a joint operation, there had been some diversity in how this was accounted for. Some applied the business combination principles in IFRS 3 and other standards and some applied the asset acquisition accounting principles.

This issue was resolved by the IASB issuing an amendment to IFRS 11 with an effective date of annual reporting periods commencing on or after 1 January 2016. This amendment requires that where an entity acquires an interest in a joint operation which constitutes a business, the business combination accounting principles of IFRS 3 and other standards must be applied. These requirements will apply to interests acquired through a farm-in.

In October 2019 the IASB issued amendments to the definition of a business in IFRS 3 (applicable from 1 January 2020). The amendments:

- ▶ Clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs
- ▶ Add guidance to assess whether an acquired process is substantive and add illustrative examples
- ▶ Introduce an optional concentration test to permit a simplified assessment.

In addition, further changes to IFRS 11 will become effective from 1 January 2019. The amendments require that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation to fair value. However, if an entity obtains joint control of a business that is a joint operation, or if it increases its interest in a joint operation and continues to have only joint control (not control), then previously held interests in the assets and liabilities of the joint operation are not remeasured.

#### (iv) Development and production asset swaps

Exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. A gain or loss is recognised on the difference between the carrying amount of the asset given up and the fair value of the asset received in the statement of profit or loss and other comprehensive income. IAS 16.24  
IAS 38.45

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.2B Accounting policy - Oil and gas properties - producing assets and other property, plant and equipment *continued*

#### (iv) Development and production asset swaps *continued*

##### Commentary

As discussed above, asset swaps that occur in the E&E phase are accounted for in accordance with the specific requirements of IFRS 6. By contrast, outside of the exploration and evaluation phase, asset swapped are governed by IAS 16. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. IAS 16 provides guidance to determine when an exchange transaction has commercial substance. This means, as described in Good Petroleum's accounting policy, that exchanges of development and production assets are measured at fair value, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. IAS 16.25

If the transaction is determined to be a business combination, the requirements of IFRS 3 apply, unless it is between parties under common control.

#### (v) Major maintenance, refits, inspection and repairs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off, is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred. IAS 16.13  
IAS 16.14  
IAS 16.70  
IAS 16.12

#### (vi) Disposals of oil and gas properties

In 2019, the Group disposed of oil and gas properties with a total net carrying amount of US\$ 70 million for cash consideration of US\$ 109 million. The date of disposal, being the date the purchaser obtained control of the oil and gas properties, and the consideration obtained, were calculated in accordance with the requirements of IFRS 15.

##### Commentary

On disposal of property, plant and equipment, entities should take into account the consequential amendments made by IFRS 15:

- ▶ The date of disposal of the asset is the date the recipient obtains control of the asset in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15 IAS 16.69
- ▶ The amount of consideration to be included in the gain or loss arising from the derecognition is determined in accordance with the requirements for determining the transaction price in IFRS 15. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in transaction price in IFRS 15 IAS 16.72

##### Estimates and assumptions

Oil and gas properties are depreciated using the units of production (UOP) method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change. Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- ▶ The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- ▶ Unforeseen operational issues

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.3 Other property, plant and equipment

	Freehold land and buildings	Other plant and equipment	Total	IAS 1.78(a)
	US\$ million	US\$ million	US\$ million	IAS 16.73(e)
<b>Cost</b>				
<b>At 1 January 2018</b>	69	169	238	IAS 16.73(d)
Additions	21	11	32	IAS 16.73(e)(i)
Acquisition of subsidiary (Note 7.2)	18	51	69	IAS 16.73(e)(iii)
Disposals	(10)	(50)	(60)	IAS 16.73(e)(ix)
<b>At 31 December 2018</b>	<b>98</b>	<b>181</b>	<b>279</b>	IAS 16.73(d)
Additions	–	1	1	IAS 16.73(e)(i)
Acquisition of subsidiary (Note 7.2)	10	19	29	IAS 16.73(e)(iii)
Disposals	(4)	(9)	(13)	IAS 16.73(e)(ix)
<b>At 31 December 2019</b>	<b>104</b>	<b>192</b>	<b>296</b>	IAS 16.73(d)
<b>Depreciation</b>				
<b>At 1 January 2018</b>	(19)	(62)	(81)	IAS 16.73(d)
Depreciation charge for the year	(5)	(3)	(8)	IAS 16.73(e)(vii)
Disposals	6	31	37	IAS 16.73(e)(ix)
<b>At 31 December 2018</b>	<b>(18)</b>	<b>(34)</b>	<b>(52)</b>	IAS 16.73(d)
Depreciation charge for the year	(2)	(5)	(7)	IAS 16.73(e)(vii)
Disposals	–	1	1	IAS 16.73(e)(ix)
<b>At 31 December 2019</b>	<b>(20)</b>	<b>(38)</b>	<b>(58)</b>	IAS 16.73(d)
<b>Net book value:</b>				
<b>At 31 December 2018</b>	<b>80</b>	<b>147</b>	<b>227</b>	
<b>At 31 December 2019</b>	<b>84</b>	<b>154</b>	<b>238</b>	

#### Useful lives

The useful lives of the assets are estimated as follows:

Buildings	20 years	IAS 16.73(c)
Plant and equipment	5 to 15 years	

Included in property, plant and equipment at 31 December 2019 was an amount of US\$3 million (2018: US\$46 million) relating to expenditure for a facility in the course of construction. The expenditure includes borrowing costs capitalised during the period amounting to US\$0.1 million (2018: US\$2.1 million), at a weighted average interest rate of 5.8% (2018: 5.7%).

IAS 16.74(b)

Cash outflow for the purchase of other property, plant and equipment was US\$1 million (2018: US\$32 million).

IAS 23.26(a),(b)

#### Commentary

IFRS 16.47

If a lessee does not present right-of-use assets separately in the statement of financial position, IFRS 16.47 requires the right-of-use assets to be included within the same line item as that within which the corresponding underlying assets would be presented if they were owned. The Group has separately disclosed its right-of-use assets on the face of the statement of financial position. However, if the Group had included its right-of-use assets within property, plant and equipment, a column for the right-of-use assets would be included in the above table with a cross-reference to the details in Note 5.5.



# Notes to the consolidated financial statements

## Section 4. Invested capital *continued*

### 4.4 Other intangible assets and goodwill

	Goodwill	Other intangible assets	Total	
	US\$ million	US\$ million	US\$ million	
<b>Cost:</b>				IAS 38.118(e)
<b>At 1 January 2018</b>	–	5	5	IAS 38.118(c)
Additions	–	3	3	IAS 38.118(e)(i)
Acquisition of subsidiary (Note 7.2)	17	–	17	IAS 38.118(e)(i)
<b>At 31 December 2018</b>	17	8	25	IAS 38.118(c)
Additions	–	5	5	IAS 38.118(e)(i)
Acquisition of subsidiary (Note 7.2)	25	–	25	IAS 38.118(e)(i)
<b>At 31 December 2019</b>	<b>42</b>	<b>13</b>	<b>55</b>	IAS 38.118(c)
<b>Amortisation and impairment:</b>				
<b>At 1 January 2018</b>	–	(1)	(1)	IAS 38.118(c)
Amortisation charge for the year	–	–	–	IAS 38.118(e)(vi)
<b>At 31 December 2018</b>	–	(1)	(1)	IAS 38.118(c)
Amortisation charge for the year	–	(1)	(1)	IAS 38.118(e)(vi)
<b>At 31 December 2019</b>	<b>–</b>	<b>(2)</b>	<b>(2)</b>	IAS 38.118(c)
<b>Net book value:</b>				
<b>At 31 December 2018</b>	<b>17</b>	<b>7</b>	<b>24</b>	
<b>At 31 December 2019</b>	<b>42</b>	<b>11</b>	<b>53</b>	

Other intangible assets mostly represent computer software which is being amortised over the useful economic life of three years. IAS 38.118(a)

Goodwill arises principally because of the following factors:

- 1) The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing fields in our regional business units IFRS 3.B64(e)
- 2) The requirement to recognise deferred tax assets and liabilities for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value IFRS 3.B64(k)

#### 4.4A Accounting policy - Other intangible assets and goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets with definite lives are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any. Indefinite lived intangibles are not amortised, instead they are tested for impairment annually as a minimum, or when there are indicators of impairment. IAS 38.24  
IAS 38.33  
IAS 38.74

Internally generated intangible assets, excluding capitalised development costs, are not capitalised. Instead, the related expenditure is recognised in the statement of profit or loss and other comprehensive income in the period in which the expenditure is incurred. IAS 38.51, 52  
IAS 38.68

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets. IAS 38.88  
IAS 38.97  
IAS 38.104  
IAS 38.109  
IAS 38.99

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised. IAS 38.112-113



# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.5 Impairment losses

#### Impairment testing of goodwill

For impairment testing purposes, goodwill acquired through business combinations has been allocated, as follows: IAS 36.135

Carrying amount of goodwill as at 31 December:

	Unallocated		Refinery plant		Total		IAS 36.134(a)
	2019	2018	2019	2018	2019	2018	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
Goodwill	25	–	17	17	42	17	

#### Unallocated

The balance of unallocated goodwill represents the provisional amount acquired through the acquisition of Desert during the year, which could not be reliably allocated. There were no indicators of impairment during the period to 31 December 2019. Therefore, this goodwill has not yet been subject to impairment testing. IAS 36.133

#### Commentary

IAS 36 also recognises that it might not be possible to complete the initial allocation of the goodwill to a CGU, or group of CGUs, for impairment purposes before the end of the annual period in which the combination occurs. Where this is the case, IAS 36 does not require a provisional allocation to be made, but the goodwill (or part of it) is left unallocated for that period. Goodwill must then be allocated before the end of the first annual period beginning after the acquisition date (i.e., before the end of 2019 in the case of the acquisition of Desert). The standard requires disclosure of the amount of the unallocated goodwill together with an explanation as to why that is the case. However, so much time may have elapsed since the acquisition that there could be indicators of impairment, e.g., because of a general fall in market prices. In our view, an entity that did not finalise the goodwill allocation to CGUs must carry out an impairment test where there are indicators that the provisional goodwill could be impaired. This means, if a provisional allocation can be made, that provisional goodwill is tested for impairment in accordance with IAS 36, even if the fair values have not been finalised or goodwill has not necessarily been allocated to the relevant CGUs, or CGU groups, and the test is therefore carried out at a higher level. IAS 36.85 IAS 36.84

#### Refinery plant CGU

Goodwill of US\$17 million has been allocated to the refinery plant CGU. The recoverable amount of the refinery plant CGU of US\$200 million as at 31 December 2019 has been determined based on a value-in-use (VIU) calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for refined products. The pre-tax discount rate applied to the cash flow projections is 12.4% (2018: 10.8%), and cash flows beyond the five-year period are extrapolated using a 3% growth rate (2018: 2.8%) that is the same as the long-term average growth rate for the petroleum products sector. As a result of the analysis, management did not identify an impairment for this CGU. The refinery plant CGU forms part of the Refining and trading of crude oil and petroleum products reportable segment. IAS 36.134(c) IAS 36.130(e) IAS 36.134(d)(i)-(v) IAS 36.130(d)(ii)

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.5 Impairment losses *continued*

#### Refinery plant CGU *continued*

##### Key assumptions used

The calculation of value in use for the refinery plant CGU is most sensitive to the following assumptions:

IAS 36.134 (d)(i)

IAS 36.134 (d)(ii)

- ▶ Gross margins
- ▶ Discount rates
- ▶ Crude oil prices
- ▶ Market share during the budget period
- ▶ Excise tax rate
- ▶ Growth rates used to extrapolate cash flows beyond the budget period

*Gross margins:* Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for planned improvements in the efficiency of operations, as included in the Board approved budget for 2019 and forecast for 2020 and 2021. Thereafter gross margins are adjusted for the impact of CPI only

*Discount rates:* Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is derived from the Group's weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

*Crude oil prices:* Forecast commodity prices are based on management's estimates and available market data. This includes consideration of forward curve pricing over the period for which there is a liquid market (2-3 years), thereafter reverting to a long term oil price assumption, supported by available market data.

*Market share assumptions:* These assumptions are important because as well as using industry data for growth rates (as noted below), management assesses how the CGU's position, relative to its competitors, might change over the forecast period. Management expects the Group's share of the petroleum products market to be stable over the forecast period.

*Excise tax rate:* Excise tax on petroleum products is an important factor for the oil refinery business. It determines the retail price levels and influences the commercial justification for operating a refinery plant as opposed to selling crude oil.

*Growth rate estimates:* Rates are based on published industry research.

##### **Sensitivity to changes in assumptions**

IAS 36.134(f)

With regard to the assessment of value in use for the refinery plant CGU, management believes that there are no reasonably possible changes in any of the above key assumptions that would cause the carrying value of the CGU to materially exceed its recoverable amount.

##### **Impairment testing of other non-current assets**

	2019	2018	
	US\$ million	US\$ million	
<b>Impairment losses</b>			
Exploration and evaluation assets	(5)	(6)	IAS 36.126(a)
Oil and gas properties	(33)	(9)	IAS 36.126(a)
<b>Impairment reversals</b>			
Exploration and evaluation assets	16	–	IAS 36.126(b)

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.5 Impairment losses *continued*

During the year ended 31 December 2019, a reversal of impairment of exploration and evaluation assets of US\$16 million (2018: nil) was recognised. This reversal related to a previously recognised impairment loss of the Sand field. This reversal resulted from a positive change in the estimates used to determine the assets' recoverable amount as a consequence of additional 2C contingent resources being booked. This reversal was partially offset by impairment losses on exploration and evaluation assets totalling US\$5 million (2018: US\$6 million). The major element of the impairment losses was a charge of US\$3 million against exploration and evaluation assets relating to the Gravel field which was triggered by downward reserves revisions. IAS 36.130

Total impairment losses of US\$33 million (2018: US\$9 million) were recognised in respect of producing oil and gas properties. The major element of this was a charge of US\$20 million relating to fields in the isolated areas of Petroland. The triggers for the impairment tests of the producing oil and gas properties were primarily the effect of flooding, which extensively damaged certain offshore and onshore production facilities, leading to repair costs and higher estimates of the eventual cost of decommissioning the production facilities. In addition, triggers arose from reduced estimates of the quantities of hydrocarbons recoverable from some of these fields. The recoverable amount was based on management's estimate of VIU. IAS 36.130

All of the CGUs for which there were impairment losses or impairment reversals recognised in the current year, form part of the Oil exploration and production reportable segment. IAS 36.130(d)(ii)

In assessing whether an impairment is required, the carrying value of the asset or CGU is compared with its recoverable amount. The recoverable amount is the higher of the asset's/CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is VIU. The Group generally estimates VIU using a discounted cash flow model. IAS 36.130(e)

The future cash flows were discounted to their present values using a pre-tax discount rate of 11.5% (2018: 10%). This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity, weighted 50% each. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. IAS 36.130(g)

#### Commentary

IAS 36 requires disclosure of key assumptions made for each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. While the disclosures above have been provided for illustrative purposes, entities need to evaluate the significance of each assumption used for the purpose of this disclosure. IAS 36.134(d)(i)

The Group has determined recoverable amounts of its CGUs based on VIU under IAS 36. If the recoverable amounts are determined using FVLCD, IAS 36 requires disclosure of the valuation technique(s) and other information including: the key assumptions used; a description of management's approach to each key assumption; the level of fair value hierarchy and the reason(s) for changing valuation techniques, if there is any change. IAS 36.134(e)

Furthermore, if fair value less cost of disposal is determined using discounted cash flow projections, additional information such as period of cash flow projections, growth rate used to extrapolate cash flow projections and the discount rate(s) applied to the cash flow projections are required to be disclosed. While an entity is not required to provide disclosures required under IFRS 13, these disclosures under IAS 36 are similar to those under IFRS 13, illustrated elsewhere in the these financial statements.

IAS 36.134(f) requires disclosures of sensitivity analysis for each CGU for which the carrying amount of goodwill or intangible assets with indefinite lives allocated to that CGU is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite lives. These disclosures are made if a reasonably possible change in a key assumption used to determine the CGU's recoverable amount would cause the CGU's carrying amount to exceed its recoverable amount. IAS 36.134 (e)

Refer to Note 19 [Good Group \(International\) Limited 2019](#) or Note 6E of [Good Mining Limited 2019](#) for examples of the disclosures that should be provided where a reasonably possible change in a key assumption would cause the carrying value of the CGU to materially exceed its recoverable amount.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.5 Impairment losses *continued*

#### 4.5A Accounting policy - Impairment losses (non-financial assets)

##### (i) Assets (excluding goodwill)

Disclosures relating to impairment of non-financial assets are summarised in the following notes:

- ▶ Accounting policy disclosures
- ▶ Disclosures for significant assumptions
- ▶ Impairment of oil and gas properties
- ▶ Impairment losses

IAS 36.9  
IAS 36.10  
IAS 36.18  
IAS 36.22

IAS 36.66  
IAS 36.59

The Group assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and VIU. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

IAS 36.30-32

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. Further details on how FVLCD is calculated are outlined in [Note 5.3](#).

IAS 36.33  
IAS 36.35

The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flow after the fifth year. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance, whereas anticipated enhancements to assets are included in FVLCD calculations.

IAS 36.44

Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

IAS 36.60

For assets/CGUs excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised, impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the statement of profit or loss and other comprehensive income.

IAS 36.110

##### (ii) Goodwill

IAS 36.114  
IAS 36.117

Goodwill is tested for impairment annually (as at 31 October) and when circumstances indicate that the carrying value may be impaired.

IAS 36.119  
IAS  
36.10(b)

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount including goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

IAS 36.90

IAS 36.124

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.5 Impairment losses *continued*

#### 4.5A Accounting policy - Impairment losses (non-financial assets) *continued*

##### (ii) Goodwill *continued*

###### **Estimates and assumptions**

###### **Recoverability of oil and gas assets**

The Group assesses each asset or CGU (excluding goodwill, which is assessed annually regardless of indicators) in each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the FVLCD and VIU. The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (see 2.3.1 *Hydrocarbon reserves and resource estimates* above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

###### **Commentary**

###### **Impairment testing**

IAS 36 permits the annual impairment test for a CGU to which goodwill has been allocated to be performed at any time during the year, provided that it is at the same time each year. However, if some or all of the goodwill allocated to a CGU was acquired in a business combination during the current annual period, that unit must be tested for impairment before the end of the current annual period. Different CGUs may be tested at different times.

IAS 36.96

IAS 36 provides a number of minimum indicators of impairment. However, entities operating within the oil and gas sector may also consider the following:

- ▶ Declines in prices of products or increases in production costs
- ▶ Governmental actions, such as new environmental regulations, imposition of price controls and tax increases
- ▶ Major operational problems or accidents
- ▶ Significant decreases in reserves estimates
- ▶ Increases in the anticipated period over which reserves will be produced
- ▶ Substantial cost overruns during the development and construction phases of an oil field

###### **The level of cash generating units**

A CGU is defined by IAS 36 as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In determining appropriate CGUs, an entity will need to consider the following issues, in particular:

- (a) Is there an active market for intermediate products?
- (b) Are there external users of the processing assets?
- (c) Are there fields that are operated as one complex through the use of shared infrastructure?
- (d) Are there stand-alone fields that operate on a portfolio basis?

For most oil and gas entities, the successive stages of the extraction and production process are often considered to be one CGU as it is not possible to allocate net cash inflows to individual stages of the process. Given this, in the upstream industry, the field may be an appropriate CGU since, in most cases, it is the level at which separately identifiable cash inflows are available.

Impairment calculations are based on proved reserves plus risk-adjusted probable reserves.

###### **The prices to apply to future production**

Forecasting commodity prices is never straightforward, because it is not usually possible to know whether recent changes in commodity prices are a temporary aberration or the beginning of a longer-term trend. Management usually takes a longer-term approach to the commodity prices, but these are not always consistent with the VIU rules. Given the long life of most oil fields, an entity should not consider price levels only for the past three or four years. Instead, it should consider historical price levels for longer periods and assess how these prices are influenced by changes in underlying supply and demand levels. This requires an understanding of the industry marginal cost curves to determine at which price levels competitors are forced to reduce production as this will determine long-term minimum price levels in the industry. It will also require an understanding of whether or not new low-cost producers are about to enter the market or new low-cost fields are about to commence production.

For actively traded commodities, typically forward price curves are available and, in such situations, these provide a reference point for forecast price assumptions.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.5 Impairment losses *continued*

#### 4.5A Accounting policy - Impairment losses (non financial assets) *continued*

##### (ii) Goodwill *continued*

###### **Commentary *continued***

###### ***The prices to apply to future production *continued****

The commodity assumptions need to match the profile of the life of the oil field. Spot prices and forward curve prices (where they are available as at the impairment testing date) are more relevant for shorter-life oil fields, while long-term price assumptions are more relevant for longer-life oil fields. Where the forward price curve does not extend far enough into the future (or is not sufficiently liquid farther out), the price at the end of the forward curve period used is generally based on a longer-term average price, supported by market data.

The future cash flows relating to the purchase or sale of commodities might be known from forward purchase or sales contracts. Use of these contracted prices in place of the spot price or forward curve price for the contracted volumes will generally be acceptable. However, it is possible that some of these forward contracts might be accounted for as derivatives contracts at fair value in accordance with IFRS 9, and therefore the related assets or liabilities will be recognised on the balance sheet. Such balances would be excluded from the IAS 36 impairment test. Given this, the cash flow projections prepared for the purposes of the IAS 36 impairment test should exclude the pricing terms associated with these forward contracts.

Inputs to impairment calculations and long-term prices used should be consistent with those used for investment appraisal purposes and will likely be linked to internal long-term planning assumptions.

###### ***Foreign currency future cash flows***

In accordance with IAS 36, when calculating the VIU of the CGU, future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity then translates the present value of these cash flows using the spot rate at the date of the VIU calculation. This is to avoid the problems inherent in using forward exchange rates, which are based on differential interest rates. Using such forward rates would result in double-counting the time value of money, first in the discount rate and then in the forward rate.

This requirement, however, is more complex than it may initially appear. Effectively, this method not only requires an entity to perform separate impairment tests for cash flows generated in different currencies, but also to make them consistent with one another so that the combined effect is meaningful. This is a difficult exercise to undertake. Many different factors need to be considered, including relative inflation rates and relative interest rates, as well as appropriate discount rates for the currencies in question. Because of this, the potential for error is significant, and the greatest danger lies in understating the present value of cash outflows by using a discount rate that is too high. Therefore, it is important for entities to seek input from experienced valuers who will be able to assist them in dealing with these challenges.

For FVLCD calculations, the requirements relating to foreign currency are not specified other than they must reflect what a market participant would use when valuing the asset/CGU. In practice, entities that use a discounted cash flow (DCF) analysis when calculating FVLCD will incorporate a forecast for exchange rates into their calculations rather than using the spot rate. A key issue in any forecast is the assumed timeframe over which the exchange rate may return to lower levels. This assumption is generally best analysed in conjunction with commodity prices in order to ensure consistency in the parameters used, i.e., a rise in prices will usually be accompanied by a rise in currency.

IAS 36.54  
IAS  
36.BCZ49

###### ***Shared infrastructure***

When several fields share infrastructure (e.g., pipelines, ports or refining facilities), the question arises whether the different fields and the shared infrastructure should be treated as a single CGU. Treating the fields and the shared infrastructure as part of the same CGU is not appropriate under the following circumstances:

- ▶ If the shared infrastructure is relatively insignificant
- ▶ If the fields are capable of selling their product without making use of the shared infrastructure
- ▶ If the shared infrastructure is classified as a corporate asset, which is defined under IAS 36 as "assets other than goodwill that contribute to the future cash flows of both the CGU under review and other CGUs". In that case, the entity should apply the requirements in IAS 36 for corporate assets

However, if the conditions above do not apply, then there are two acceptable ways shared infrastructure can be dealt with.

Under the first approach, shared infrastructure is allocated to the fields/CGUs in question, and each field is tested for impairment individually when indicators of impairment exist. The second approach is to aggregate the CGUs on which the shared infrastructure is dependent and test the shared infrastructure for impairment at this combined level of CGUs.

If the shared infrastructure is owned through an arrangement that meets the definition of a joint venture under IFRS 11, it should be tested for impairment separately in accordance with IAS 28.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.5 Impairment losses *continued*

#### 4.5A Accounting policy - Impairment losses (non financial assets) *continued*

##### (ii) Goodwill *continued*

##### **Commentary *continued***

##### ***Derecognition – exploration and evaluation assets***

In some circumstances, when an entity recognises an impairment of an E&E asset, it also needs to decide whether or not to derecognise the asset because future economic benefits are no longer expected. If an entity concludes that production is not technically feasible or commercially viable, this provides evidence that the related E&E asset needs to be tested for impairment. Based on such evidence, an entity may also conclude that future economic benefits are no longer expected and that the area is to be abandoned.

Although IFRS does not specifically deal with derecognition of E&E assets, the entity should derecognise E&E asset if:

- (1) The asset is no longer in the E&E phase and hence outside the scope of IFRS
- (2) Other asset standards, such IAS 16 and IAS 38, would require derecognition under those circumstances

Subsequent to derecognition, the costs of an E&E asset that has been derecognised cannot be rerecognised as part of a new E&E asset nor reversed, unlike the impairment of an E&E asset, which may be reversed (as discussed above).

##### ***Impairment reversals***

Any impairment loss that has been recognised in accordance with IFRS needs to be reversed when the requirements specified in IAS 36 have been met. An impairment loss recognised in prior periods for an asset other than goodwill must be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset will be increased to its recoverable amount. However, such reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

IAS 36.109-123



# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.6 Provisions

	Decommissioning	Other	Total	
	US\$ million	US\$ million	US\$ million	
<b>At 1 January 2019</b>	<b>388</b>	<b>1</b>	<b>389</b>	
Acquisition of a subsidiary (Note 7.2)	55	10	65	IAS 37.84(a)
Arising during the year	230	–	230	IAS 37.84(b)
Reversal of unused provisions	(1)	–	(1)	IAS 37.84(b)
Disposals	(79)	–	(79)	IAS 37.84(d)
				IAS 37.84(c)
Unwinding of discount	27	–	27	IAS 37.84(e)
Utilisation	(2)	–	(2)	IAS 37.84(c)
<b>At 31 December 2019</b>	<b>618</b>	<b>11</b>	<b>629</b>	
Comprising:				
Current 2019	17	2	19	
Non-current 2019	601	9	610	
	<b>618</b>	<b>11</b>	<b>629</b>	
Current 2018	15	1	16	
Non-current 2018	373	–	373	
	<b>388</b>	<b>1</b>	<b>389</b>	

#### Decommissioning provision

The Group makes full provision for the future cost of decommissioning oil and gas wells, production facilities and pipelines on a discounted basis on the installation of those wells and infrastructure.

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2028, when the producing oil and gas properties are expected to cease operations. These provisions have been created based on the Group's internal estimates. Assumptions based on the current economic environment have been made, which management believes form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The discount rate used in the calculation of the provision as at 31 December 2019 equalled 3.3% (2018: 4.2%).

#### Other provisions

Other provisions mainly comprise provisions for litigation or contractual claims, and employee benefits. Included in these provisions is a contingent liability recognised at a fair value of US\$7 million on the acquisition of Desert Limited. The claim is subject to legal arbitration and is expected to finalise during 2019. This amount remained unchanged at the reporting date.

IAS 37.85

IFRS 3.56(a)

IAS 10.19



# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.6 Provisions *continued*

#### 4.6A Accounting policy - Provisions

##### **(i) General**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

IAS 37.14

IAS 37.53

IAS 37.54

The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in the statement of profit or loss and other comprehensive income.

IAS 37.45

IAS 37.47

IAS 37.60

##### **(ii) Decommissioning liability**

The Group recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

IAS 37.14

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field. Any decommissioning obligations that arise through the production of inventory are expensed when the inventory item is recognised in cost of goods sold.

IAS 37.17

IAS 16.16

Additional disturbances which arise due to further development/construction at the oil and gas property are recognised as additions or charges to the corresponding assets and decommissioning liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) that is created on an ongoing basis during production are provided for at their net present values and recognised in profit or loss as production continues.

IFRIC 1.2

IFRIC 1.5(a),

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas properties. Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income.

IFRIC 1.5(b)

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

IFRIC 1.5(c)

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as a finance cost.

IFRIC 1.7

The Group recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

IFRIC 1.8

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.6 Provisions *continued*

#### 4.6A Accounting policy - Provisions *continued*

##### (ii) Decommissioning liability *continued*

###### Commentary

###### *Changes to the provision*

Where a reduction in a decommissioning obligation is to be deducted from the cost of the asset, the cost of the asset is the written-down carrying value of the whole asset (comprising its construction costs and decommissioning costs). It is not just the value of the decommissioning asset originally recognised. This view is based on the example and associated solution set out in IFRIC 1. The solution does not treat the decommissioning element as a separate component of the asset. Accordingly, we believe that it would not be appropriate to recognise any gain until the carrying value of the whole asset is extinguished.

###### *Deferred tax*

Three alternative approaches are seen in practice when determining how deferred tax on the temporary differences that arise from the initial recognition of the decommissioning asset and liability should be recognised. These are, as follows:

**Approach 1:** The entity applies the initial recognition exemption of IAS 12.15 and IAS 12.24 and, hence, recognises neither the deferred income tax asset in relation to the temporary difference on the rehabilitation liability nor the corresponding deferred income tax liability in relation to the temporary difference on the rehabilitation asset. The initial recognition exemption applies to each separately recognised element in the statement of financial position with no subsequent recognition reassessment.

IAS 12.15, IAS  
12.24

**Approach 2:** Consider the asset and the liability separately whereby the entity recognises: (1) a deferred income tax asset in relation to the temporary difference on the rehabilitation liability; and (2) a deferred income tax liability in relation to the temporary difference on the rehabilitation asset. On initial recognition, the deferred income tax asset and deferred income tax liability are equal and opposite, and the criteria for offsetting contained in IAS 12.71 and IAS 12.76 are met, so the net amount recognised in the financial statements is zero. However, subsequently, the rehabilitation asset will most likely be amortised at a different rate than the underlying rehabilitation liability, at which point, deferred tax is recognised on these subsequent changes such that a net deferred income tax asset or liability is recognised.

IAS 12.71, IAS  
12.76

**Approach 3:** Regard the asset and the liability as in-substance linked to each other. The entity would consider any temporary differences on a net basis and recognise deferred tax on that net amount. In this approach, the non-deductible asset and the tax deductible liability are regarded as being economically the same as a tax deductible asset that is acquired on deferred terms (where the repayment of the loan does not normally give rise to tax). On this basis, the net carrying value of the asset and liability is zero on initial recognition, as is the tax base. There is therefore no temporary difference and the initial recognition exception does not apply. Deferred tax is recognised on subsequent temporary differences that arise when the net asset or liability changes from zero.

In October 2019, the Board decided to propose a narrow-scope amendment to IAS 12 that would narrow the initial recognition exemption in paragraphs 15 and 24 of IAS 12 so that it would not apply to transactions that give rise to both taxable and deductible temporary differences, to the extent the amounts recognised for the temporary differences are the same. Notwithstanding this, we believe that any of the approaches described above continue to be acceptable until such an amendment is issued by the Board.

##### (iii) Environmental expenditures and liabilities

IAS 37.37

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognised when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

The amount recognised is the best estimate of the expenditure required. If the effect of the time value of money is material, the amount recognised is the present value of the estimated future expenditure.

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.6 Provisions *continued*

#### 4.6A Accounting policy - Provisions *continued*

##### (iii) Environmental expenditures and liabilities *continued*

###### **Significant estimates and assumptions**

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, estimates of the extent and costs of decommissioning activities, the emergence of new restoration techniques or experience at other production sites, cost increases as compared to the inflation rates (3% (2018: 2%)), and changes in discount rates (3% (2018: 4%)). The expected timing, extent and amount of expenditure may also change, for example, in response to changes in oil and gas reserves or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

External valuers may be used to assist with the assessment of future decommissioning costs. The involvement of external valuers is determined on a case-by-case basis, taking into account factors such as the expected gross cost or timing of abandonment, and is approved by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

### 4.7 Capital commitments and other contingencies

IFRS 16.51  
IFRS 16.52

#### 4.7.1 Operating lease commitments – group as lessee (applicable prior to 1 January 2019)

The Group has entered into leases for buildings, motor vehicles and various items of plant and equipment. There are no restrictions placed upon the lessee by entering into these leases.

IAS 17.35(d)(ii)-  
(iii)

Future minimum lease payments under non-cancellable operating leases as at 31 December 2018 are, as follows:

	<b>2018</b>	
	<b>US\$ million</b>	
Within one year	70	IAS 17.35(a)(i)
After one year but not more than five years	150	IAS 17.35(a)(ii)
More than five years	40	IAS 17.35(a)(iii)
	<b>260</b>	

#### 4.7.2 Commitments - leases not yet commenced (applicable from 1 January 2019)

The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are \$2 million within one year, \$8 million in one to two years, and \$5 million in two to five years.

IFRS 16.59(b)(iv)

#### 4.7.3 Capital commitments

Capital commitments (excluding those related to joint arrangements)

IAS 16.74(c)

	<b>2019</b>	<b>2018</b>
	<b>US\$ million</b>	<b>US\$ million</b>
Contracted capital expenditure: oil and gas exploration	248	169
Other commitments	75	62

Capital commitments related to joint ventures

	<b>2019</b>	<b>2018</b>	
	<b>US\$ million</b>	<b>US\$ million</b>	
Capital commitments related to the Group's interest in the joint venture	20	30	IFRS 12.B18-B19

# Notes to the consolidated financial statements *continued*

## Section 4. Invested capital *continued*

### 4.7 Capital commitments and other contingencies *continued*

#### 4.7.3 Capital commitments *continued*

Based on applicable prices at 31 December 2019, the Group has unconditional purchase obligations of US\$15 million relating to the procurement of transportation services that are essential to the distribution of its products worldwide. Some of the Group's unconditional purchase obligations are settled based on the prevailing market rate for the service purchased. In some cases, the amount of the actual obligation may change over time because of market conditions. Transportation obligations are for contracted ocean freight rates. The Group's future commitments associated with unconditional purchase obligations total US\$6 million in 2019, US\$4 million in 2019, US\$3 million in 2020 and US\$2 million in 2021. During 2019, 2018 and 2016, the Group fulfilled its minimum contractual purchase obligations or negotiated settlements in those situations in which it terminated an agreement containing an unconditional obligation.

IAS 37.86

#### 4.7.4 Contingencies

At 31 December 2019, contingent liabilities amounting to US\$79 million (2018: US\$85 million) existed in respect of performance guarantees for committed oil and gas capital work programmes. The amount of the liability is uncertain due to the long-term nature of the programme.

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure

This section provides additional information about the Group's business and management policies that the directors consider is most relevant in understanding the business and management of the Group's capital and debt structure including:

- ▶ Objectives and policies of how the Group manages its financial risks, liquidity positions and capital structure (Notes 5.1, 5.2, 5.3)
- ▶ Changes in liabilities arising from financing activities (Note 5.4)
- ▶ Leases (Note 5.5)

### 5.1 Issued capital

*Authorised (shares have no par value)*

	2019	2018	IAS 1.78(e)
	US\$ million	US\$ million	IAS 1.79(a)(xi) IAS 1.79(a)(xiii)
<b>Ordinary share capital</b>			
1,551,433,024 ordinary shares	1,551	1,551	
	<b>Thousands (shares)</b>	<b>US\$ million</b>	IAS 1.79(a)(ii) IAS 1.79(a)(iv)
<i>Ordinary shares issued and fully paid</i>			
At 1 January 2018	836,458	836	
Issued on 1 November 2018 for cash	714,975	715	
At 1 January 2019	1,551,433	1,551	
<b>At 31 December 2019</b>	<b>1,551,433</b>	<b>1,551</b>	

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

IAS 1.79(v)

### 5.2 Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

IAS 1.134

IAS 1.135(a)

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

IAS 1.135(d)

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to its interest-bearing loans and borrowings that form part of its capital structure requirements. Breaches in the financial covenants would permit the bank to immediately call interest-bearing loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current or prior period.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio between 5% and 20%. The Group includes within net debt, interest-bearing loans and borrowings, trade and other payables less cash and short-term deposits.

	2019	2018	IAS 1.135(b)
	US\$ million	US\$ million	
Interest-bearing loans and borrowings	724	366	
Accounts payable and accrued liabilities	589	536	
Less cash and short-term deposits	(508)	(539)	
Net debt	805	363	
Equity	4,766	3,999	
<b>Capital and net debt</b>	<b>5,571</b>	<b>4,362</b>	
Gearing ratio	14%	8%	

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure

### 5.2 Capital management *continued*

#### Commentary

IAS 1 require entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. The Group has disclosed its gearing ratio as this is the measure it uses to monitor capital. The Group considers both capital and net debt as relevant components of funding, hence, part of its capital management. However, other measures or a different type of gearing ratio may be more suitable for other entities.

IAS 1.135, IAS 1.135

IFRS 7 requires disclosures in the event of a default or breaches as at the end of a reporting period and during the year. Although there are no explicit requirements addressing the opposite situation, the Group has disclosed the restriction on capital represented by financial covenants as it considers it relevant information to the users of the financial statements. The Group did not provide additional information on its debt covenants because the likelihood of the breach occurring is remote.

IFRS 7.18-19

### 5.3 Financial instruments

#### 5.3A Interest-bearing loans and borrowings

#### Commentary

IFRS 7 paragraph 7 only requires disclosure of information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. As the Group has a significant amount of interest-bearing loans and borrowings, it has decided to provide detailed information to the users of the financial statements about the effective interest rate as well as the maturity of the loans.

	Effective interest rate	Maturity	2019	2018	IFRS 7.6
			US\$ million	US\$ million	
<b>Current</b>	%				IFRS 7.8(f)
Bank overdrafts	EURIBOR +1.0	On demand	8	51	
Lease liabilities (Note 5.4)	3.0 - 4.0	2020	39	-	
Other loans:					
US\$75 million bank loan facility (2018: US\$75 million)	EURIBOR +0.5	1-Nov-19	74	-	
			<b>121</b>	<b>51</b>	
<b>Non-current</b>					
10% debentures	10.2	2020-2024	108	77	
Lease liabilities (Note 5.4)	3.0 - 4.0	2021-2025	71	-	
US\$75 million bank loan facility (2018: US\$75 million)	EURIBOR +0.5	1-Nov-19	-	71	
US\$450 million bank loan facility (2018: US\$450 million)	EURIBOR +1.0	31-Mar-21	424	167	
			<b>603</b>	<b>315</b>	

#### Bank overdrafts

The bank overdrafts are secured by a portion of the Group's short-term deposits.

IFRS 7.7

#### US\$75 million bank loan facility

This loan is unsecured and is repayable in full on 1 November 2019.

#### 10% debentures

The 10% debentures are repayable in equal annual instalments of US\$35 million commencing on 1 January 2020.

#### US\$450 million bank loan facility

This loan is secured by a floating charge over all assets of the Group and is repayable in full on 31 March 2021.

Total interest expense for the year on interest-bearing loans and borrowings was US\$64 million (2018: US\$33 million).

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3A.1 Accounting policy - borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset), are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

IAS 23.8

IAS 23.10

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

IAS 23.12

IAS 23.13

IAS 23.14

All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, generally, they do not meet the 'probable economic benefits' test and also are rarely debt funded. Any related borrowing costs incurred during this phase are generally recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

#### 5.3A.2 Interest income/expense

For all financial instruments measured at amortised cost, interest income or expense is calculated using the effective interest rate (EIR) method. EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income and interest expense is included in finance costs respectively in the statement of profit or loss and other comprehensive income.

#### Commentary

IAS 23 defines borrowing costs as including exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The Group would also include such foreign exchange differences on directly attributable borrowings as borrowing costs capable of capitalisation to the extent that they represented an adjustment to interest costs. Additionally, the accounting policy would be expanded to include the Group's approach in determining which foreign exchange differences were considered an adjustment to interest costs.

The Interpretations Committee concluded that the unwinding of the discount, e.g., on a decommissioning provision, is not a borrowing cost as defined in IAS 23 and, thus, cannot be capitalised under that standard.

In December, 2018 the IASB issued an amendment to paragraph 14 of IAS 23 which provides guidance when a qualifying asset is funded by general borrowings. Paragraph 14 requires an entity to exclude borrowings made specifically for the purpose of obtaining a qualifying asset, when determining the funds that an entity borrows generally and uses for the purpose of obtaining a qualifying asset. The Board amended paragraph 14 to clarify that, when substantially all the activities necessary to prepare a qualifying asset for its intended use or sale are complete, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. The amendments must be applied for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted and should be disclosed.

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3B Derivative financial instruments

The Group has entered into the following derivative commodity contracts that have not been designated as hedges:

IFRS 7.8(e)

Fixed price swap	Financial instrument classification	Term	Bbl/day	US\$ per bbl	Fair value at 31 December 2019
					US\$ million
Dated Brent Oil	FVTPL	February 2019 - June 2019	800	72	9
Dated Brent Oil	FVTPL	January 2021 Expiry	800	74	7
Dated Brent Oil	FVTPL	January 2022 Expiry	800	75	6
Total					22
Fixed price swap	Financial instrument classification	Term	Bbl/day	US\$ per bbl	Fair value at 31 December 2018
					US\$ million
Dated Brent Oil	FVTPL	March 2019 - December 2019	800	70	8
Dated Brent Oil	FVTPL	February 2019 - June 2019	800	72	12
Total					20

The resulting US\$22 million (2018: US\$20 million) fair value of these contracts has been recognised in the statement of financial position as derivative assets. The maximum credit exposure of these derivative assets is the carrying value. The Group mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners.

IFRS 7.6

IFRS 7.36

The change in the fair value of these commodity price derivatives of US\$5 million gain (2018: US\$9 million gain) has been recognised in the statement of profit or loss and other comprehensive income during the year as gain on derivative financial instruments.

IFRS 7.20(a)(i)

#### 5.3C Fair values

##### (a) Carrying value versus fair value

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those whose carrying amounts are a reasonable approximation of fair value:

IFRS 7.25

IFRS 7.26

IFRS 7.29

Financial instrument classification	Carrying amount		Fair value	
	2019	2018	2019	2018
	US\$ million	US\$ million	US\$ million	US\$ million

IFRS 7.8

##### Financial liabilities

Interest-bearing loans and borrowings:

Fixed rate borrowings	Amortised cost	108	77	111	81
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Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Derivative assets are already carried at fair value.



# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3C Fair values *continued*

IFRS 13.9

##### (b) Fair value hierarchy

The fair value of the financial instruments is included at 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 following methods and assumptions were used to estimate the fair values:

- ▶ Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash flow models that use discount rates that reflect the issuer's borrowing rate as at the end of the reporting period. The Group's own non-performance risk as at 31 December 2019 was assessed to be insignificant.
- ▶ The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-collateralised, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2019, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value.

IFRS 13.91(a)

##### (c) Accounting policy - fair value measurement

The Group measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses fair value less costs to sell (FVLCD) to determine the recoverable amount of some of its non-financial assets.

Fair value is 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability

Or

- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- ▶ **Level 1** – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ **Level 2** – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ **Level 3** – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IFRS 13.9

IFRS 13.16

IFRS 13.22

IFRS 13.27

IFRS 13.61

IFRS 13  
Appendix A

IFRS 13.95

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3C Fair values *continued*

##### (c) Accounting policy - fair value measurement

The Group's valuation committee determines the policies and procedures for both recurring fair value measurements, such as derivatives, and non-recurring fair value measurements, such as impairment tests. The valuation committee comprises the head of the risk management department, the chief reserve engineer and chief finance officers for each business unit. Further details on the use of external valuers to assess non-recurring fair value measurements for impairment testing and assessment of decommissioning costs are set out in [Notes 2.5](#) and [4.6](#).

IFRS 13.93(g)

IFRS 13.94

At each reporting date, the valuation committee analyses the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Group's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The valuation committee also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or CGU at FVLCD. External valuers may be used to assess FVLCD of the groups non-financial assets, and the involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

On an interim basis, the valuation committee presents the valuation results to the Audit Committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations. Changes in estimates and assumptions about these inputs could affect the reported fair value.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. The fair values of those financial instruments that are measured at amortised cost are disclosed in [Note 2.5](#).

##### Commentary

Details have been provided in these illustrative disclosures. However, entities should consider tailoring the level of detail based on their specific facts and circumstances and materiality considerations.

IAS 1.125

IAS 1 requires an entity to disclose significant judgements applied in preparing the financial statements and significant estimates that involve a high degree of estimation uncertainty. The disclosure requirements go beyond those requirements that already exist in some other IFRS such as IAS 36.

IAS 36.134(F)

These disclosures represent an important source of information in the financial statements because they highlight the areas of the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help the readers of the financial statements understand the impact of possible significant changes.

The Group has, for illustrative purposes, included disclosures about significant judgements and estimates beyond what is normally required, and potentially also beyond what is decision useful. That is, it is only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year that should be addressed in this section. It is important that entities carefully assesses which judgements and estimates are the most significant ones in this context, and make disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and uncertainties. Disclosure of uncertainties that do not have a significant risk of resulting in material adjustments may clutter the financial statements in a way that reduces the users' ability to identify the major uncertainties.

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3D Financial risk management objectives and policies

##### (a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commodity price risk, interest rate risk and foreign currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, trade receivables, trade payables and derivative financial instruments. IFRS 7.33

The sensitivity analyses in the following sections relate to the position as at 31 December 2019 and 2018.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates on the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant. The sensitivity analyses are intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

The analyses exclude the impact of movements in market variables on the carrying value of provisions. The following assumptions have been made in calculating the sensitivity analyses: IFRS 7.40(b)

- ▶ The statement of financial position sensitivity relates to derivatives and euro-denominated trade receivables
- ▶ The sensitivity of the relevant profit before tax item and/or equity is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2019 and 31 December 2018

The impact on equity is the same as the impact on profit before tax.

##### Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas products it produces. The Group's policy is to manage these risks through entering into hedging arrangements for 20% and 40% of its production. The products do not qualify for hedge accounting but provide a natural hedge against rising or falling commodity prices. IFRS 7.33

##### Commodity price sensitivity

The table below summarises the impact on profit before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact on equity is the same as the impact on profit before tax as these derivative financial instruments have not been designated as hedges and are classified as held-for-trading and therefore fair valued through profit or loss.

The analysis is based on the assumption that the crude oil price moves 10% resulting in a change of US\$7.60/bbl (2018: US\$7.20/bbl), with all other variables held constant.

Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecasters' expectations.

Increase/decrease in crude oil prices	Effect on profit before tax for the year ended 31 December 2019	Effect on profit before tax for the year ended 31 December 2018
	Increase/(Decrease)	Increase/(Decrease)
	US\$ million	US\$ million
Increase US\$7.60/bbl (2018: US\$7.20/bbl)	(2)	(1)
Decrease US\$7.60/bbl (2018: US\$7.20/bbl)	2	2

IFRS 7.40(a)

##### Physical commodity contracts

The Group also enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts, which are recognised and measured at cost when the transactions occur. IFRS 7.33

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3D Financial risk management objectives and policies *continued*

##### (a) Market risk *continued*

###### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's policy is to keep between 20% and 55% of its borrowings at fixed rates of interest.

###### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, based on the last two years' historical rates and economic forecasters' expectations of the Group's profit before tax through the impact on floating rate borrowings and cash and cash equivalents (with all other variables held constant). The impact on equity is the same as the impact on profit before tax.

Increase/decrease interest rate	Effect on profit before tax for the year ended 31 December 2019	Effect on profit before tax for the year ended 31 December 2018
	Increase/(Decrease) US\$ million	Increase/(Decrease) US\$ million
+1.5%	(7)	(3)
-1.0%	1	4

*IFRS 7.40(a)*

###### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currencies. The Group manages this risk by matching receipts and payments in the same currency and monitoring movements in exchange rates. Approximately 7% of the Group's sales are denominated in currencies other than the functional currencies, whereas 4% of costs are denominated in currencies other than the functional currencies of the entities in the Group.

*IFRS 7.33*

###### Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at reporting date. The impact on equity is the same as the impact on profit before tax.

Increase/decrease in foreign exchange rate	Effect on profit before tax for the year ended 31 December 2019	Effect on profit before tax for the year ended 31 December 2018
	Increase/(Decrease) US\$ million	Increase/(Decrease) US\$ million
+5%	2	1
-5%	(2)	(1)

*IFRS 7.40(a)*

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3D Financial risk management objectives and policies *continued*

##### (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group monitors its risk to a shortage of funds by monitoring its debt rating and the maturity dates of existing debt and other payables. IFRS 7.33

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 31 December 2019, the Group had available US\$27.0 million (2018: US\$287.0 million) of undrawn committed borrowing facilities. The Group's policy is that not more than 35% of borrowings should mature in the next 12-month period. 13% of the Group's debt will mature in less than one year at 31 December 2019 (2018: 14%) based on the balances reflected in the financial statements. IFRS 7.39(c)

Petroland Investors Service made no change to the Group's long-term credit rating of B+.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total	
31 December 2019	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	IFRS 7.39(a) IFRS 7.B11
Interest-bearing loans and borrowings	8	144	90	52	522	816	
Lease liabilities (Note 5.4)	-	50	43	78	-	171	IFRS 16.58
Accounts payable	-	589	-	-	-	589	
	<b>8</b>	<b>783</b>	<b>133</b>	<b>130</b>	<b>522</b>	<b>1,576</b>	

Year ended	On demand	<1 year	1 - 2 years	2 - 5 years	> 5 years	Total	
31 December 2018	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	IFRS 7.39(a)
Interest-bearing loans and borrowings	51	65	148	612	-	876	
Accounts payable	-	536	-	-	-	536	
	<b>51</b>	<b>601</b>	<b>148</b>	<b>612</b>	<b>-</b>	<b>1,412</b>	

#### Commentary

IFRS 16.58 requires disclosure of the maturity analysis of lease liabilities applying IFRS 7.39 and IFRS 7.B11 separately from the maturity analyses of other financial liabilities. As such, the Group presented a separate line item for lease liabilities in the maturity analysis of its financial liabilities.

##### (c) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity and financial position. The Group obtains sufficient collateral (where appropriate) from customers as a means of mitigating the risk of financial loss from defaults. In addition, receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant. IFRS 7.33  
IFRS 7.36

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.3 Financial instruments *continued*

#### 5.3D Financial risk management objectives and policies *continued*

##### (c) Credit risk *continued*

Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance.

At 31 December 2019, the Group had five customers (2018: six customers) that owed the Group more than US\$50 million each and accounted for approximately 71% (2018: 76%) of all receivables and contract assets outstanding. There was one customer (2018: one customer) with balances greater than US\$100 million accounting for just over 17% (2018: 19%) of total accounts receivables and contract assets. The need for an impairment is analysed at each reporting date on an individual basis for major clients.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash, short-term investments and derivative financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or the equivalent.

Refer to [Note 6.2](#) for an analysis of trade receivables ageing.

#### Commentary

An entity should provide additional information that will help users of its financial statements to evaluate the quantitative information disclosed. An entity might disclose some or all the following to comply with IFRS 13: IFRS 13.92

- ▶ The nature of the item being measured at fair value, including the characteristics of the item being measured that are taken into account in the determination of relevant inputs
- ▶ How third-party information such as broker quotes, pricing services, net asset values and relevant market data was taken into account when measuring fair value

For a liability measured at fair value and issued with an inseparable third-party credit enhancement, IFRS 13.98 requires disclosure of the existence of credit-enhancement and whether it is reflected in the fair value measurement of the liability. IFRS 13.98

IFRS 13 requires an entity to present the quantitative disclosures of IFRS 13 in a tabular format, unless another format is more appropriate. The Group included the quantitative disclosures in tabular format, above. IFRS 13.99

IFRS 13 requires a quantitative sensitivity analysis for financial assets and financial liabilities that are measured at fair value on a recurring basis. For all other recurring fair value measurements that are categorised within Level 3 of the fair value hierarchy, an entity is required to provide: IFRS 13.99(h)(ii)

- ▶ A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement
- ▶ If there are interrelationships between the inputs and other unobservable inputs used in the fair value measurement, a description of the interrelationships and of how this might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement

For this purpose, significance must be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in OCI, total equity.

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.4. Changes in liabilities arising from financing activities

IAS 7.44A  
IAS 7.44C

	1 January 2019	Cash flows	Business combination	Other	31 December 2019
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Current interest-bearing loans and borrowings	51	(85)	–	155	121
Non-current interest-bearing loans and borrowings	315	257	57	(26)	603
<b>Total liabilities from financing activities</b>	<b>366</b>	<b>172</b>	<b>57</b>	<b>129</b>	<b>724</b>

  

	1 January 2018	Cash flows	Business combination	Other	31 December 2018
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Current interest-bearing loans and borrowings	51	(51)	–	51	51
Non-current interest-bearing loans and borrowings	332	34	–	(51)	315
<b>Total liabilities from financing activities</b>	<b>383</b>	<b>(17)</b>	<b>–</b>	<b>–</b>	<b>366</b>

IAS 7.44B  
IAS 7.44D

IAS 7.44B  
IAS 7.44D

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings to current due to the passage of time, the effect of accrued but not yet paid interest on interest-bearing loans and borrowings, the impact of adopting and applying IFRS 16 and various other adjustments.

#### Commentary

IAS 7.44A requires an entity to provide disclosures that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group provided a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, which include the changes identified in IAS 7.44B as applicable.

This reconciliation provides a link to the amounts recognised in the statement of cash flows (IAS 7.44D).

An entity may provide the disclosure required by IAS 7.44A in combination with disclosures of changes in other assets and liabilities. However, it is required to disclose the changes in liabilities arising from financing activities separately from the changes on those other assets and liabilities (IAS 7.44E).

The Group did not have any changes to leases during the period (i.e., additions, extensions and terminations). The only change relates to the adoption to IFRS 16 and initial recognition of the lease liability which has been included in the 'other' column. If an entity did have significant changes to leases during the period, they may consider disclosing these in a separate column.

### 5.5 Leases

IFRS 16.51  
IFRS 16.52

#### 5.5.1 Group as a lessee (applicable from 1 January 2019)

The Group has lease contracts for various items of plant and equipment, vehicles and buildings used in its operations. Leases of plant and equipment generally have lease terms between three and seven years, while motor vehicles and buildings generally have lease terms between three and five years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There is one lease contract that includes an extension option and variable lease payments, which are further discussed below. The Group also has certain leases of assets with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the short-term lease and lease of low-value assets recognition exemptions for these leases.

IFRS 16.59(a)  
IFRS 16.59(c)

IFRS 16.60

#### Commentary

IFRS 16.52

IFRS 16.52 requires lessees to disclose information about its leases in a single note or a separate section in the financial statements. However, there is no need to duplicate certain information that is already presented elsewhere, provided that information is incorporated by cross-reference in a single note or separate section. The Group provided most of the required disclosures by IFRS 16 in this section of the financial statements. Cross-references are provided for certain required information outside of this section.



# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.5 Leases *continued*

#### 5.5.1 Group as a lessee (applicable from 1 January 2019) *continued*

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period: IFRS 16.54

	<b>Plant and equipment</b>	<b>Motor vehicles</b>	<b>Buildings</b>	<b>Total</b>	
	<b>US\$ million</b>	<b>US\$ million</b>	<b>US\$ million</b>	<b>US\$ million</b>	
<b>As at 1 January 2019</b>	<b>82</b>	<b>30</b>	<b>43</b>	<b>155</b>	
Additions	–	–	–	–	IFRS 16.53(h)
Depreciation expense (Note 3.2)	(14)	(15)	(14)	<b>(43)</b>	IFRS 16.53(a)
<b>As at 31 December 2019</b>	<b>68</b>	<b>15</b>	<b>29</b>	<b>112</b>	IFRS 16.53(j)

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period: IFRS 16.54

	<b>2019</b>	
	<b>US\$ million</b>	
<b>As at 1 January</b>	155	
Additions	–	
Accretion of interest	5	IFRS 16.53(b)
Payments	(50)	IFRS 16.53(g)
<b>As at 31 December</b>	<b>110</b>	
Current (Note 5.3A)	39	
Non-current (Note 5.3A)	71	

The maturity analysis of lease liabilities is disclosed in Note 5.3D(b). IFRS 16.58

The following are the amounts recognised in profit or loss: IFRS 16.54

	<b>2019</b>	
	<b>US\$ million</b>	
Depreciation expense for right-of-use assets	43	IFRS 16.53(a)
Interest expense on lease liabilities	5	IFRS 16.53(b)
Expense relating to short-term leases (included in general and administrative expenses)	10	IFRS 16.53(c)
Expense relating to leases of low-value assets (included in general and administrative expenses)	15	IFRS 16.53(d)
Variable lease payments (included in cost of sales)	18	IFRS 16.53(e)
<b>Total amount recognised in profit or loss</b>	<b>91</b>	

The Group had total cash outflows for leases of \$93 million in 2019 (\$43 million in 2018). There were no non-cash additions to right-of-use assets and lease liabilities during the year. The future cash outflows relating to leases that have not yet commenced are disclosed in Note 4.7.2. Refer to Note 5.4 for the changes in liabilities arising from financing activities which include some of the cash outflows related to leases. IFRS 16.53(g)  
IFRS 16.59(b)(iv)  
IAS 7.43

### Commentary

IFRS 16.53

IFRS 16 requires disclosure of the following information, which users of the financial statements have identified as being most useful to their analysis:

- ▶ Depreciation charge for right-of-use assets, split by class of underlying asset
- ▶ Interest expense on lease liabilities
- ▶ Short-term lease expense for such leases with a lease term greater than one month
- ▶ Low-value asset lease expense (except for portions related to short-term leases)
- ▶ Variable lease expense (i.e., for variable lease payments not included in the lease liability)
- ▶ Income from subleasing right-of-use assets
- ▶ Total cash outflow for leases
- ▶ Additions to right-of-use assets
- ▶ Gains and losses arising from sale and leaseback transactions
- ▶ Carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset



# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.5 Leases *continued*

#### 5.5.1 Group as a lessee (applicable from 1 January 2019) *continued*

##### Commentary *continued*

All of the above disclosures are required to be presented in a tabular format, unless another format is more appropriate. The amounts to be disclosed must include costs that the lessee has included in the carrying amount of another asset during the reporting period. IFRS 16.54

The standard requires disclosure of the total cash outflow for leases. The Group also included the cash outflow related to leases of low-value assets and short-term leases in the disclosure of the total cash outflow.

IFRS 16 requires disclosure of the amount of lease commitments for short-term leases when short-term lease commitments at the end of the reporting period are dissimilar to the same period's short-term lease expense (that is otherwise required to be disclosed). This disclosure requirement is not applicable to the Group. IFRS 16.55

IFRS 16 requires additional qualitative and quantitative information about a lessee's leasing activities necessary to meet the disclosure objective of the standard. This additional information may include, but is not limited to, information that helps users of the financial statements to assess: IFRS 16.59

- ▶ The nature of the lessee's leasing activities
- ▶ Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:
  - ▶ Variable lease payments
  - ▶ Extension options and termination options
  - ▶ Residual value guarantees
  - ▶ Leases not yet commenced to which the lessee is committed
- ▶ Restrictions or covenants imposed by leases
- ▶ Sale and leaseback transactions

The Group has lease contracts for equipment that contains variable payments based on the volume of crude oil extracted. These terms are negotiated by management for certain services equipment that is used on site. Management's objective is to align the lease expense with crude oil extracted and revenue earned. The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

IFRS 16.59(b)(i)  
IFRS 16.B49

	<b>Fixed payments</b>	<b>Variable payments</b>	<b>Total</b>
	<b>US\$ million</b>	<b>US\$ million</b>	<b>US\$ million</b>
<b>2019</b>			
Fixed rent	17	–	<b>17</b>
Variable rent only	–	18	<b>18</b>
	<b>17</b>	<b>18</b>	<b>35</b>

A 5% increase in barrels produced would increase total variable lease payments by 1%.

##### Commentary

Disclosures of additional information relating to variable lease payments could include: IFRS 16.B49

- ▶ The lessee's reasons for using variable lease payments and the prevalence of those payments
- ▶ The relative magnitude of variable lease payments to fixed payments
- ▶ Key variables upon which variable lease payments depend on how payments are expected to vary in response to changes in those key variables
- ▶ Other operational and financial effects of variable lease payments

Entities would need to exercise judgement in determining the extent of disclosures needed to satisfy the disclosure objective of the standard (i.e., to provide a basis for users to assess the effect of leases on the financial position, financial performance, and cash flows of the lessee).

The Group only has one lease with variable payments and has presented a comparison of the fixed-to-variable lease payments in the table above. A table is not required by IFRS 16 and narrative commentary could be used instead. If an entity has more than one lease with variable payments, a table could be useful for users to understand the relative magnitude of variable lease payments to fixed payments.

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.5 Leases *continued*

#### 5.5.2 Accounting policy - leases

##### Accounting policy applicable prior to 1 January 2019

IFRIC 4.6

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfilment is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement. The Group is not a lessor in any transactions, it is only a lessee.

##### (a) Group as a lessee

IAS 17.8

Finance leases, which transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss and other comprehensive income.

IAS 17.20

IAS 17.25

IAS 17.27

IAS 17.28

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

IAS 17.33

Operating lease payments are recognised as an operating expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

##### (b) Embedded leases

All take-or-pay contracts are reviewed at inception to determine whether they contain any embedded leases. If there are any embedded leases, they are assessed as either finance or operating leases and accounted for accordingly.

IFRIC 4.6

IFRIC 4.10

##### Accounting policy applicable from 1 January 2019

The Group assesses at contract inception all arrangements to determine whether it is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is not a lessor in any transactions, it is only a lessee.

IFRS 16.9

##### (a) Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### (i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

IFRS 16.23

IFRS 16.24

IFRS 16.30

IFRS 16.32

(i) Plant and equipment 3 to 7 years

(j) Motor vehicles and buildings 3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in [Note 4.5 Impairment losses](#).

IFRS 16.33

##### Commentary

Under IFRS 16, the cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

IFRS 16. 24(d)

The Group's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.5 Leases *continued*

#### 5.5.2 Accounting policy - leases *continued*

##### Accounting policy applicable from 1 January 2019 *continued*

###### (ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

IFRS 16.26

IFRS 16.27

IFRS 16.38(b)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is generally not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

IFRS 16.36

IFRS 16.39

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see [Note 5.3A](#)).

###### (iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

IFRS 16.5

IFRS 16.6

##### **Significant judgements, estimates and assumptions**

###### **Identification of non-lease components**

In addition to containing a lease, the Group's services arrangement involves the provision of additional services, including personnel cost, maintenance, production related activities and other items. These are considered to be non-lease components and the Group has decided to separate these from the lease components. Judgement is required to identify these. The consideration in the contract is then allocated between the lease and non-lease components on a relative stand-alone price basis. This requires the Group to estimate stand-alone prices for each lease and non-lease component.

###### **Accounting for leases and joint operations**

Where the Group participates in a joint operation, either as a lease operator or non-operator party, determining whether to recognise and whether to measure a lease obligation involves judgement and requires identification of which entity has primary responsibility for the lease obligations entered into in relation to the joint operation's activities.

Where the joint operation (including all parties to that arrangement) has the right to control the use of the identified asset and all parties have a legal obligation to make payments to the third party supplier, each joint operation participant would recognise its proportionate share of the lease-related balances. This may arise where all parties to an unincorporated joint operation sign the lease agreement, or the joint operation is some sort of entity or arrangement that can sign in its own name.

However, where Good Petroleum is the lead operator and the sole signatory such that it is the one with the legal obligation to pay the third party supplier, it would recognise 100% of the lease-related balances on its balance sheet. Good Petroleum would then need to assess whether the arrangement with the non-operator parties (which is often governed by a joint operating agreement (JOA)) contains a sublease. This assessment would be based on the terms and conditions of each arrangement and may be impacted by the legal jurisdiction in which the joint arrangement operates. Regardless of whether there is a sublease or not, Good Petroleum, as the lead operator, would continue to recognise 100% of the lease liability for as long as it remains a party to the arrangement with the third party supplier and has primary obligation to the lease payments.

# Notes to the consolidated financial statements *continued*

## Section 5. Capital and debt structure *continued*

### 5.5 Leases *continued*

#### 5.5.2 Accounting policy - leases *continued*

##### **Significant judgements, estimates and assumptions continued**

##### **Identifying in-substance fixed rates versus variable lease payments**

The lease payments used to calculate the lease-related balances under IFRS 16 include fixed payments, in-substance fixed payments and variable payments based on an index or rate. Variable payments not based on an index or rate are excluded from the measurement of lease liabilities and related assets. For some of the Group's drilling rig contracts, in addition to the fixed payments, there are payments that are contractually described as variable but are in-substance fixed payments because the contract terms require the payment of a fixed amount that is unavoidable. The payments are expressed as a rate paid for each operating day, hour or fraction of an hour and can change depending on when and how the asset is being used. The types of rates that the Group may be charged include:

- ▶ **Full operating rate** - a rate charged when the rig is operating at full capacity with a full crew
- ▶ **Standby rate or cold-stack rate** - a rate charged when the Group unilaterally puts the rig on standby
- ▶ **Major maintenance rate** - a minimal rate charged when the lessor determines that maintenance needs to be performed and the rig is not available for use by the lessee
- ▶ **Inclement weather rate** - a 'zero rate' charged when weather makes it dangerous to operate the rig and, therefore, it is not available for use by the lessee

Therefore, the Group has had to apply judgement to identify in-substance fixed payments included in the lease payments used to calculate the lease-related balances. Other payments identified as variable, not based on an index or rate, are excluded from recognition and measurement of the lease related balances.

The Group has assessed that while there is variability in the pricing, there is a minimum rate which is considered to be the lowest rate that it would pay while the asset is available for its use, which is the standby or cold-stack rate. The major maintenance and inclement weather rates do not represent the minimum as these are only payable when the asset is not available for use. The additional full operating rates represent variable lease payments.

##### **Commentary**

One issue highlighted during the implementation of IFRS 16, was how a lead operator should recognise lease-related assets and liabilities when it is the sole signatory to a contract that is or contains a lease. This issue was taken to the Interpretations Committee in 2019. Specifically, the Interpretations Committee discussed a question relating to lease arrangements in a JO under IFRS 16, and how a lead operator recognises a lease liability. The question specifically focused on situations where the JO is not structured through a separate vehicle and the lead operator, as the sole signatory, enters into a lease contract with a third party supplier (lessor) for an item of property, plant and equipment that will be operated jointly as part of the JO's activities. The lead operator has the right to recover a share of the lease costs from the other joint operators in accordance with the contractual and other arrangements governing the JO.

The Interpretations Committee concluded that in accordance with IFRS 11, a joint operator identifies and recognises both liabilities it incurs in relation to its interest in the JO; and its share of any liabilities incurred jointly with other parties to the joint arrangement.

For some entities in the oil and gas sector this will result in a significant change from the approach taken previously, whereby an entity acting as Operator may only have accounted for its share of lease liabilities associated with its joint operations. Furthermore, assessing the consequential accounting implications is highly complex. The additional accounting considerations arising from this issue are set out EY's International GAAP 2020 book at Chapter 43 section 18.

##### **Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) and to make adjustments to reflect the terms and conditions of the lease (for example, when leases are not in a subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgements (such as the lease term and a subsidiary's stand-alone credit rating).

IFRS 16.26

# Notes to the consolidated financial statements *continued*

## Section 6. Working capital

This section provides additional information that the directors consider is most relevant in understanding the composition and management of the Group's working capital:

- ▶ Cash and short-term deposits (Note 6.1)
- ▶ Trade and other receivables and contract assets (Note 6.2)
- ▶ Inventories (Note 6.3)
- ▶ Trade payables and accrued liabilities (Note 6.4)

### 6.1 Cash and short-term deposits

	2019	2018	
	US\$ million	US\$ million	
Cash at banks and on hand	26	111	
Short-term deposits	432	428	
	<b>458</b>	<b>539</b>	IAS 7.6

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

IFRS 7.34(a)

The Group deposits cash surpluses only with major banks of high-quality credit standing.

IFRS 7.25

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

IAS 7.45

	2019	2018	
	US\$ million	US\$ million	
Cash at banks and on hand	26	111	
Short-term deposits	432	428	
<b>Cash and short-term deposits</b>	<b>458</b>	<b>539</b>	
Bank overdrafts	(8)	(51)	
<b>Cash and cash equivalents</b>	<b>450</b>	<b>488</b>	

At 31 December 2019, the Group had available US\$27.0 million (2018: US\$287.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

IAS 7.50

#### 6.1A Accounting policy - Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. The short-term deposits are highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments. Cash and short-term deposits exclude restricted cash, which is not available for use by the Group and therefore is not considered highly liquid, for example, cash set aside to cover decommissioning obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts which are repayable on demand, as they are considered an integral part of the Group's cash management.

# Notes to the consolidated financial statements *continued*

## Section 6. Working capital *continued*

### 6.1 Cash and short-term deposits *continued*

#### 6.1A Accounting policy - Cash and short-term deposits *continued*

##### Commentary

The amount of cash and cash equivalent balances that are not available for use by the Group should be disclosed, together with a commentary by management to explain the circumstances of the restriction. Examples include cash and cash equivalents held by a subsidiary operating under exchange controls or other legal restrictions that prevent their general use by the parent or other subsidiaries [IAS 7]. The nature of the restriction must be assessed to determine whether the balance is ineligible for inclusion in cash equivalents because the restriction results in the investment ceasing to be highly liquid or readily convertible to known amounts of cash. For example, where an entity covenants to maintain a minimum level of cash or deposits as security for certain short-term obligations, and provided that no amounts are required to be designated for that specific purpose, such balances could still be regarded as cash equivalents, albeit subject to restrictions, as part of a policy of managing resources to meet short-term commitments. IAS 7.49

However, an entity may be required to formally set aside cash, for example, by way of a deposit into an escrow account, as part of a specific project or transaction, such as the acquisition or construction of a property. In such circumstances, it is necessary to consider the terms and conditions relating to the account and the conditions relating to both the entity's and the counterparty's access to the funds in it to determine whether it is appropriate for the deposit to be classified in cash equivalents.

### 6.2 Receivables and contract assets

	2019	2018	IAS 1.78(b)
	US\$ million	US\$ million	IFRS 7.6
<b>Trade and other receivables</b>		<b>Restated</b>	
Trade receivables	446	453	
Other receivables and prepayments	48	51	
Joint arrangements	33	–	
<b>Total trade and other receivables</b>	<b>527</b>	<b>504</b>	
<b>Contract assets</b>	<b>91</b>	<b>95</b>	
<b>Total receivables and contract assets</b>	<b>618</b>	<b>599</b>	

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms.

Joint arrangement receivables include an amount in respect of outstanding cash calls of US\$29.7 million (2018: nil) receivable from the Grizzly joint operation partner, Oilco. The overdue cash calls are not considered impaired based on the creditworthiness of the counterparty. Management is currently pursuing payment of this amount.

The Group's contract assets of US\$90.9million (2018: US\$94.9 million) are net of an allowance for expected credit losses of US\$0.09 million (2018: US\$0.09million). The Group's contract assets were previously included within trade receivables, but following the adoption of IFRS 15 have been reclassified to contract assets. IFRS 7.37  
IFRS  
15.118(c)

Set out below is the movement in the allowance for expected credit losses of trade receivables and contract assets:

	2019	2018	
	US\$ million	US\$ million	
At 1 January	6	5	
Provision for expected credit losses	6	4	
Amounts written off	(3)	(1)	IFRS 7.35(c)
Unused amounts reversed	(3)	(2)	
<b>At 31 December</b>	<b>6</b>	<b>6</b>	

# Notes to the consolidated financial statements *continued*

## Section 6. Working capital

### 6.2 Receivables and contract assets *continued*

Set out below is the information about the credit risk exposure on the Group's trade and other receivables and contract assets using a provision matrix:

IFRS 7.35M  
IFRS 7.35N

31 December 2019	Trade receivables						
	Contract assets	Total	Current	< 30 days	30-60 days	60-90 days	>90 days
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Expected credit loss rate	0.10%		0.10%	1%	4%	10%	20%
Estimated total gross carrying amount at default	91	452	236	154	40	16	6
Expected credit loss	0.09	5.78	0.24	1.52	1.52	1.5	1.0

31 December 2018	Trade receivables						
	Contract assets	Total	Current	< 30 days	30-60 days	60-90 days	>90 days
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Expected credit loss rate	0.10%		0.10%	1%	3.5%	8%	20%
Estimated total gross carrying amount at default	95	459	239	151	44	17	8
Expected credit loss	0.09	5.88	0.24	1.49	1.47	1.28	1.4

Overall, the balance of trade receivables and contract assets has not changed significantly in the year and neither has the provision for expected credit losses at the current period end compared to the prior year. The acquisition of Desert (Note 7.2) increased trade and other receivables, but this was offset by reductions in individual customer balances. There is no revenue recognised in the current period that was included in contract liabilities at the beginning of the reporting period, nor is there any revenue recognised in the current period from performance obligations satisfied, or partially satisfied, in the previous periods.

IFRS  
15.116(b)  
IFRS  
15.116(c)

#### Commentary

IFRS 7 requires tabular disclosure of a reconciliation from the opening balance to the closing balance of the loss allowance by class of financial instrument. The Group has provided this required reconciliation for trade receivables and contract assets.

IFRS 7.35h

IFRS 7 requires an entity to provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. However, it does not explicitly require a reconciliation of movements in the gross carrying amounts in a tabular format and the requirement could be addressed using a narrative explanation.

IFRS 7.35i

IFRS 15 also requires disclosure of 'revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period' and 'revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods'. Entities can present this in a tabular or narrative format.

IFRS 15.116

Entities are permitted to disclose information about contract balances, and changes therein, as they deem to be most appropriate, which would include a combination of tabular and narrative information.



# Notes to the consolidated financial statements *continued*

## Section 6. Working capital

### 6.2 Receivables and contract assets *continued*

#### 6.2A Accounting policy

##### Trade and other receivables and contract assets

##### *Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. In the Group's case, contract assets arise during the short period between delivery of the goods to the customer and the invoice being raised, which occurs once quality testing has been finalised. Upon raising of the invoice, the amounts are transferred to trade receivables.

##### *Trade receivables*

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

IFRS 15.107  
IFRS 15.108

##### Provision for expected credit losses of trade receivables and contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, and taking into account any coverage by letters of credit.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### *Significant judgements, estimates and assumptions*

##### 6.2B Provision for expected credit losses of trade receivables and contract assets

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., movements in crude oil price) are expected to deteriorate over the next year which can lead to an increased number of defaults amongst the Group's customers, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs involves estimates and assumptions to be made. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

#### **Commentary**

IFRS 15 requires the disclosure of all contract balances, including contract assets, contract liabilities, costs to obtain a contract and trade receivables. The Group has disclosed contract assets and trade receivables, but does not have contract liabilities nor have costs been incurred specifically to obtain contracts (this is typically sales commission which is not common in the oil and gas sector), or fulfil a contract that are eligible for capitalisation. If there had been any capitalised contract costs assets, these must be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

IFRS 15.105

All of the Groups' trade receivables arise in respect of revenue from contracts with customers. If the Group had IFRS 15 revenue and other revenue the receivable balance relating to revenue from contracts with customers would be disclosed separately.

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier).



# Notes to the consolidated financial statements *continued*

## Section 6. Working capital

### 6.2 Receivables and contract assets *continued*

#### 6.2B Provision for expected credit losses of trade receivables and contract assets *continued*

##### Commentary *continued*

Contract liabilities are recognised as revenue when the Group performs under the contract. Typically contract liabilities may arise where there is a take or pay contract in place.

Under IFRS 7, an entity must disclose how forward-looking information has been incorporated into the determination of ECL, including the use of macroeconomic information. The Group did not provide detailed information on how the forecast economic conditions have been incorporated in the determination of ECL because the impact is not significant. Entities are expected to provide more detailed information if the forward-looking information has a significant impact in the calculation of ECL.

IFRS  
7.35G  
(b)

An entity is required to apply the simplified approach for trade receivables or contract assets that do not contain a significant financing component, or when the entity applies the practical expedient for contracts that have a maturity of one year or less. However, an entity has a policy choice to apply either the simplified approach or the general approach for all trade receivables or contract assets that contain a significant financing component in accordance with IFRS 15.

### 6.3 Inventories

	2019	2018	
	US\$ million	US\$ million	
Oil and condensate inventories	78	79	
Petroleum products	10	6	
Materials	5	3	
<b>Total inventories</b>	<b>93</b>	<b>88</b>	IAS 1.78(c) IAS 2.36(b)

#### 6.3A Accounting policy - Inventories

##### Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials is the purchase cost, determined on a first-in, first-out basis.

IAS 2.36(a)  
IAS 2.9  
IAS 2.10

The cost of crude oil and refined products is the purchase cost, the cost of refining, including the appropriate proportion of depreciation, depletion and amortisation and overheads based on normal operating capacity, determined on a weighted average basis.

IAS 2.25  
IAS 2.12  
IAS 2.13

The net realisable value of crude oil and refined products is based on 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.

IAS 2.6

##### Pipeline fill

Crude oil, which is necessary to bring a pipeline into working order, is treated as a part of the related pipeline. This is on the basis that it is not held for sale or consumed in a production process, but is necessary to the operation of a facility during more than one operating cycle, and its cost cannot be recouped through sale (or is significantly impaired). This applies even if the part of inventory that is deemed to be an item of property, plant and equipment cannot be separated physically from the rest of inventory. It is valued at cost and is depreciated over the useful life of the related asset.

IAS 2.6(c)

### 6.4 Trade payables and accrued liabilities

	2019	2018	
	US\$ million	US\$ million	
Trade payables	531	462	
Other payables	26	20	
Payables and accruals to joint operations partner	32	54	
	<b>589</b>	<b>536</b>	IAS 1.77

Terms and conditions of the above financial liabilities:

- ▶ Trade payables are non-interest bearing and are normally settled on 60-day terms
- ▶ Other payables are non-interest bearing and have an average term of six months
- ▶ Payables and accruals to a joint operations partner mainly represent joint expenses that were paid by the joint operations partner, which are non-interest bearing and are normally settled on 60-day terms

IFRS 7.39

# Notes to the consolidated financial statements *continued*

## Section 7. Group structure

This section provides additional information that the directors consider is most relevant in understanding the structure of the Group, including:

- ▶ Interests in joint arrangements ([Note 7.1](#))
- ▶ Business combinations ([Note 7.2](#))
- ▶ Group information and related party disclosures ([Note 7.3](#))

### 7.1 Interests in joint arrangements

#### 7.1A Interests in joint operations

IFRS 12.20

##### *Jointly controlled pipeline*

IFRS 12.21

The Group, jointly with other participants, owns certain pipeline assets in Petroland, which it uses mostly to transport its own oil to the nearest main oil line. The Group's share is 25%.

##### *Farm-out arrangement*

The Group entered into an agreement with Oilco to share costs and risks associated with exploration activities on the Grizzly field in Petroland. Oilco contributed US\$23 million and in return received a 20% working interest in the field. Oilco will contribute 20% of operating costs and capital expenditure going forward, and the Group has been appointed as operator.

##### *PSA for block A of Rock field*

A PSA has been signed with the Oil and Gas Ministry of Petroland during the year for a 50% interest in block A of Rock field. In accordance with this PSA, in any given year, the Group's entitlement to oil from the project will fluctuate, depending upon factors including cumulative capital expenditure, inflation and oil prices, and it is determined through a formula specified in the PSA.

#### 7.1B Interests in joint ventures

The Group has a 50% interest in Vessel Limited, a joint venture which is involved in the transportation of oil and petroleum products in Petroland. The interest in this joint venture is accounted for using the equity accounting method.

IFRS 12.20

IFRS 12.21

Summarised financial statement information (100%) for the joint venture, based on its IFRS financial statements, and a reconciliation with the carrying amount of the investment in the Group's consolidated financial statements are set out below:

IFRS 12.B14

	2019	2018	
	US\$ million	US\$ million	
Revenue from contracts with customers	467	306	IFRS 12.B12
Interest income	3	2	IFRS 12.B13(e)
Interest expense	(2)	–	IFRS 12.B13(f)
Depreciation and amortisation	(95)	(82)	IFRS 12.B13(d)
Other expenses	(273)	(150)	
<b>Profit before tax</b>	<b>100</b>	<b>76</b>	
Income tax expense	(34)	(26)	IFRS 12.B13(g)
<b>Profit for the year (continuing operations)</b>	<b>66</b>	<b>50</b>	
<b>Group's share of profit for the year</b>	<b>33</b>	<b>25</b>	
Current assets, including cash and cash equivalents of US\$43 million (2018: US\$ 81million) and prepayments of US\$45 million (2018: nil)	142	128	
Non-current assets	286	206	
Current liabilities, including tax payable of US\$37 million (2018: US\$10 million)	(92)	(74)	
Non-current liabilities, including deferred tax liabilities of US\$29 million (2018: US\$32 million) and long-term borrowings of US\$50 million (2018: US\$50 million)	(108)	(98)	
<b>Equity</b>	<b>228</b>	<b>162</b>	
Proportion of the Group's ownership	50%	50%	
<b>Carrying amount of the investment</b>	<b>114</b>	<b>81</b>	IFRS 12.B14(b)

The joint venture had no contingent liabilities as at 31 December 2019 and 2018. Refer to [Note 7.1](#) for details of capital commitments.

IFRS 12.23(b)

IFRS 12.B18-

B19

IFRS 12.22(a)

Vessel Limited cannot distribute its profits until it obtains the consent from the two joint venture partners.

# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.1 Interests in joint arrangements *continued*

#### 7.1B Interests in joint ventures *continued*

##### Commentary

Refer to [Note 4.1A \(iv\)](#) for further information on accounting for farm-in/farm-out arrangements.

IFRS 12 requires separate presentation of goodwill and other adjustments to the investments in joint ventures in the above reconciliation. The Group does not have goodwill or other adjustments in respect of joint ventures.

IFRS 12.B14

The Group has presented the summarised financial information of the joint venture based on its IFRS financial statements.

IFRS 12 allows this information to be provided using an alternative basis, if the entity measures its interest in the joint venture at fair value, or if the joint venture does not prepare IFRS financial statements and preparation on that basis would be impracticable or cause undue cost. In either case, the entity is required to disclose the basis on which the information is provided.

IFRS 12.B15

IFRS 12 requires additional disclosures when the financial statements of the joint venture used in applying the equity method are as of a different date or for a different period from that of the Group. This is not applicable to the Group.

IFRS 12.22(b)

IFRS 12 requires disclosure of the unrecognised share of losses of a joint venture. This is not applicable to the Group.

IFRS 12.22(c)

#### 7.1C Accounting policy - joint arrangements

IFRS 11.4

The Group undertakes a number of business activities through joint arrangements. A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 11.7

##### (a) Interests in joint arrangements

The Group's joint arrangements are of two types:

###### (i) Joint operations

A joint operation is a type of 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.

IFRS 11.15

In relation to its interests in joint operations, the Group recognises its:

IFRS 11.20

- ▶ Assets, including its share of any assets held jointly
- ▶ Liabilities, including its share of any liabilities incurred jointly
- ▶ Revenue from the sale of its share of the output arising from the joint operation
- ▶ Share of the revenue from the sale of the output by the joint operation
- ▶ Expenses, including its share of any expenses incurred jointly

###### (ii) Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Group's investment in its joint venture is accounted for using the equity method.

IFRS 11.16

Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not individually tested for impairment.

IAS 28.10

The statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the joint venture. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

IAS 28.26-29

The aggregate of the Group's share of profit or loss of the joint venture is shown on the face of the statement of profit or loss and other comprehensive income as part of operating profit and represents profit or loss after tax and a non-controlling interest (NCI) in the subsidiaries of joint venture.

IAS 1.82(c)

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.1 Interests in joint arrangements *continued*

#### 7.1C Accounting policy - joint arrangements *continued*

##### (a) Interests in joint arrangements *continued*

##### (ii) *Joint ventures continued*

At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'Share of profit of a joint venture' in the statement of profit or loss and other comprehensive income.

On loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss and other comprehensive income.

##### (b) Reimbursement of costs of the operator of the joint arrangement

When the Group, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss.

When the Group charges a management fee (based on a fixed percentage of total costs incurred for the year) to cover other general costs incurred in carrying out the activities on behalf of the joint arrangement, it is not acting as an agent. Therefore, the general overhead expenses and the management fee are recognised in the statement of profit or loss and other comprehensive income as an expense and income, respectively. The amount of income does not represent revenue from contracts with customers. Instead, it represents income from collaborative partners and hence is outside scope of IFRS 15.

IAS 28.33  
IAS 28.27, 35  
IAS 28.40-43  
IAS 28.22(b)

##### Significant judgements, estimates and assumptions

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work programme and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity's joint arrangements. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries, as set out in [Note 7.1C](#).

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- ▶ The structure of the joint arrangement - whether it is structured through a separate vehicle
- ▶ When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  - ▶ The legal form of the separate vehicle
  - ▶ The terms of the contractual arrangement
  - ▶ Other facts and circumstances, considered on a case by case basis

This assessment often requires significant judgement. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

IFRS 11.17  
IFRS 11.BC15

# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.2 Business combinations

#### Acquisitions in 2019

The Group acquired 100% of the share capital of Desert Limited (Desert), a company holding certain exploration and development licences, on 1 July 2019. Desert has been acquired to gain access to additional reserves for the Group.

IFRS 3.59  
IFRS 3.B64 (a)-  
(d)

The provisional fair values of the identifiable assets and liabilities of Desert as at the date of acquisition were:

	<b>Provisional fair value</b>	
	<b>US\$ million</b>	
Exploration and evaluation assets (Note 4.1)	72	
Oil and gas properties (Note 4.2)	487	
Other property, plant and equipment (Note 4.3)	29	
Inventories	1	
Other current assets	56	
Cash and cash equivalents	96	
	<b>741</b>	
Trade and other payables	(52)	
Deferred tax liabilities	(42)	
Provisions (Note 4.6)	(65)	
Long-term debt	(57)	
	<b>(216)</b>	
<b>Total identifiable net assets at fair value</b>	<b>525</b>	
Goodwill arising on acquisition (Note 4.4)	25	
<b>Total consideration</b>	<b>550</b>	IFRS 3.B64(i)
<b>The cash outflow on acquisition is as follows:</b>		
Cash paid	550	IAS 7.40(a)
Net cash acquired with the subsidiary	(96)	IFRS 3.B64(f)
<b>Net consolidated cash outflow</b>	<b>454</b>	

The fair values disclosed are provisional as at 31 December 2019 due to the complexity of the acquisition and the fact that the assessment of the underlying reserves and resources acquired, and the allocation of value to intangible exploration and evaluation assets is still being finalised. As a result, the final fair values may differ. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition at the latest.

IFRS 3.B67  
(a)(i),(ii)

From the date of acquisition (1 July 2019) to 31 December 2019, Desert contributed US\$75 million to Group revenue and US\$25 million to Group profit. If the acquisition of Desert had taken place at the beginning of the year, Group revenue and profit for the 2019 year would have been US\$3,913 million and US\$1,162 million, respectively.

IFRS 3.B64  
(q)(i),(ii)

The goodwill of US\$25 million arises principally because of the following factors:

1. The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing fields in our regional business units
2. The requirement to recognise deferred tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value

IFRS 3.B64(e)

IFRS 3.B64(k)

None of the goodwill recognised is expected to be deductible for income tax purposes.

#### Acquisitions in 2018

On 1 February 2018, the Group acquired 80% of the voting shares of Pole Lubricants, a company based in Petroland, which owns an oil refinery plant.

IFRS 3.61

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

IFRS 3.B64(a)-  
(d)

# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.2 Business combinations *continued*

The fair value of the identifiable assets and liabilities of Pole Lubricants as at the date of acquisition were:

	<b>Fair value recognised on acquisition (revised)</b>	
	US\$ million	<i>IFRS 3.64(i)</i>
Freehold land and buildings	18	
Refining equipment	51	
Cash and cash equivalents	1	
Trade receivables	3	
Inventories	6	
<b>Total assets</b>	<b>79</b>	
Trade payables	(6)	
Provision for decommissioning costs	(7)	
Deferred tax liability	(1)	
<b>Total liabilities</b>	<b>(14)</b>	
<b>Total identifiable net assets at fair value</b>	<b>65</b>	
Non-controlling interest (20% of net assets)	(13)	
Total net assets acquired	52	
Goodwill arising on acquisition ( <a href="#">Note 4.4</a> )	17	
<b>Purchase consideration transferred</b>	<b>69</b>	<i>IAS 7.40(a)</i>
<b>The cash outflow on acquisition is as follows:</b>		<i>IAS 7.40(b)</i>
Cash paid	(69)	<i>IFRS 3.B64(f)(i)</i>
Net cash acquired with the subsidiary	1	<i>IAS 7.40(c)</i>
<b>Net cash outflow on acquisition</b>	<b>(68)</b>	

The net assets recognised in the 31 December 2018 financial statements were based on a provisional assessment of their fair value while the Group sought an independent valuation for the freehold land and buildings owned by Pole Lubricants. The valuation had not been completed by the date when the 2018 financial statements were approved for issue by management. *IFRS 3.45*  
*IFRS 3.B67(a)(i)*  
*IFRS 3.B67(a)(ii)*

In April 2019, the valuation was completed, and the acquisition date fair value of the freehold land and buildings was US\$18 million, an increase of US\$2 million over the provisional value. The 2018 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was an increase in the deferred tax liability of US\$0.6 million and an increase in the non-controlling interest of US\$0.28 million. There was also a corresponding reduction in goodwill of US\$1.12 million, resulting in US\$17 million of total goodwill arising on the acquisition. The increased depreciation charge on the buildings from the acquisition date to 31 December 2018 was not material. *IFRS 3.49*  
*IFRS 3.B67(a)(iii)*

From the date of acquisition (1 February 2018) to 31 December 2018, Pole Lubricants contributed US\$750 million to Group revenue and US\$290 million to Group profit. If the acquisition had taken place at the beginning of the year, Group revenue and profit for the 2018 year would have been US\$3,080 million and US\$940 million, respectively. *IFRS 3.B64(q)*

The goodwill of US\$17 million arises principally because of the following factors:

- 1) The going concern value implicit in our ability to sustain and/or grow our business by increasing reserves and resources through new discoveries *IFRS 3.B64(e)*
- 2) The requirement to recognise deferred tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value *IFRS 3.B64(k)*

None of the goodwill recognised is expected to be deductible for income tax purposes.

# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.2 Business combinations *continued*

#### 7.2A Accounting policy - Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

IFRS 3.4  
IFRS 3.18  
IFRS 3.19  
IFRS 3.53  
IFRS 3.B64(m)

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

IFRS 3.15  
IFRS 3.16(c)

If the business combination is achieved in stages, any previously held equity interest is measured at its acquisition date fair value, and any resulting gain or loss is recognised in the statement of profit or loss and other comprehensive income.

IFRS 3.42

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 is measured at fair value, with changes in fair value recognised in the statement of profit or loss and other comprehensive income in accordance with IFRS 9. If the contingent consideration is not within the scope of IFRS 9, it is measured at fair value at each reporting date with changes in fair value recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

IFRS 3.39  
IFRS 3.58

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for any NCI and the acquisition-date fair value of any previously held interest, (aggregate consideration transferred) over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

IFRS 3.32  
IFRS 3.36

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

IAS 36.80

IAS 36.86

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.



# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.2 Business combinations *continued*

#### 7.2A Accounting policy - Business combinations and goodwill *continued*

##### Commentary

###### **Definition of a business**

Under IFRS 3, when an entity acquires an asset or a group of assets, careful analysis is required to identify whether the acquisition constitutes a business or represents only an asset or group of assets that does not constitute a business.

A business is defined in IFRS 3 as “an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.”

Specifically, current IFRS 3:

- ▶ Requires the integrated set of activities and assets to be ‘capable of’ being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The focus on the capability to achieve the purposes of the business helps avoid the unduly restrictive interpretations that existed under the former guidance
- ▶ Clarifies the meanings of the terms ‘inputs’, ‘processes’ and ‘outputs’, which helps eliminate the need for extensive detailed guidance and the misinterpretations that sometimes stem from such guidance
- ▶ Clarifies that inputs and processes applied to those inputs are essential and that although the resulting outputs are normally present, they need not be present for a business to exist
- ▶ Clarifies that a business need not include all of the inputs or processes that the seller used in operating that business if a market participant is capable of continuing to produce outputs. This helps avoid the need for extensive detailed guidance and assessments about whether a missing input or process is minor

For example, oil fields in the development stage may be considered businesses under IFRS. In general, it is considered that when an activity is moving closer to production, it is more likely the asset or group of assets acquired is/are considered a business. In most cases, the acquired set of activities and assets must have at least some processes in order to be considered a business. Determining whether a particular set of integrated activities and assets is a business may require significant judgement. Where this is the case, we would anticipate a significant judgements note would be included within the financial statements, setting out the key criteria considered in arriving at the conclusion reached.

###### **Amendments to IFRS 3**

As part of the IASB’s post implementation review of IFRS 3, one of the specific areas of focus was the definition of a business, as it has been a challenge for some entities to interpret and apply this definition in practice. In October 2018, the IASB had just finalised its narrow scope amendments to IFRS 3 on the definition of a business. In summary, the amendments which are intended to help entities determine whether an acquired set of activities and assets is a business or not:

- ▶ Clarify the minimum requirements to be a business, remove the assessment of a market participant’s ability to replace missing elements, and narrow the definition of outputs
- ▶ Add guidance to assess whether an acquired process is substantive
- ▶ Introduce an optional concentration test to permit a simplified assessment
- ▶ Add illustrative examples
- ▶ Are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted and must be disclosed

###### **Accounting for leases in a business combination**

IFRS 3 was consequentially amended when IFRS 16 was issued. IFRS 3 requires a lease liability acquired in a business combination to be measured at the present value of the remaining lease payments as if the acquired lease were a new lease at the acquisition date. That is, the acquirer applies IFRS 16’s initial measurement provisions using the present value of the remaining lease payments at the acquisition date. The right-of-use asset is measured at an amount equal to the lease liability, adjusted to reflect the favourable or unfavourable terms of the lease when compared with market terms. Because the off-market nature of the lease is captured in the right-of-use asset, the acquirer does not separately recognise an intangible asset or liability for favourable or unfavourable lease terms relative to market.

IFRS 3.28B

###### **Goodwill in a business combination**

Traditionally, many oil and gas entities had assumed that the entire consideration paid for upstream assets should be allocated to the identifiable net assets acquired, i.e., any excess over the fair value of identifiable net assets (excluding hydrocarbon reserves and resources) acquired would then have been included within hydrocarbon reserves and resources acquired. However, goodwill could arise, for example, as a result of purchased synergies, overpayment by the acquirer, when potential reserves, resources and rights cannot be reliably measured or when IFRS requires that acquired assets and/or liabilities are measured at an amount that is not fair value (e.g., deferred taxation). As far as overpayments are concerned, it was concluded that, in practice, it is not possible to identify and reliably measure an overpayment at the acquisition date, and the accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises.

IFRS 3.BC82



# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.2 Business combinations *continued*

#### 7.2A Accounting policy - Business combinations and goodwill *continued*

##### Commentary *continued*

##### Goodwill in a business combination *continued*

Therefore, it is not appropriate for oil and gas entities to simply assume that, under IFRS, goodwill would never arise in a business combination and that any differential automatically goes to hydrocarbon reserves and resources. Instead, hydrocarbon reserves and resources and any exploration potential (if relevant) acquired should be valued separately and, any excess purchase consideration (being the sum of consideration transferred, the amount recognised for any NCI and the acquisition-date fair value of any previously held interest) over and above the supportable fair value of the identifiable net assets (which includes hydrocarbon reserves, resources and acquired exploration potential), should be allocated to goodwill.

##### Deferred taxation

An acquirer is required to recognise and measure a deferred tax asset or liability, in accordance with IAS 12, arising from the assets acquired and liabilities assumed in a business combination. The acquirer is also required to account for the potential tax effects of temporary differences and carryforwards of an acquire that exist at the acquisition date or arise as a result of the acquisition in accordance with IAS 12.

Where goodwill is tax deductible, new temporary differences will arise after its initial recognition as a result of the interaction between tax deductions claimed and impairments (if any) of the goodwill in the financial statements. These temporary differences do not relate to the initial recognition of goodwill, and therefore deferred tax should be recognised on them.

### 7.3 Group information and related party disclosures

#### Information about subsidiaries

IFRS 12.10(a)

The consolidated financial statements of the Group include:

	Principal activities	Country of incorporation	% equity interest		IAS 24.13
			2019	2018	
Desert Limited	Oil exploration and production	Petroland	100	–	IFRS 12.12(a)-(c)
Pole Lubricants	Oil refining	Petroland	80	80	
Gulf Limited	Oil exploration and production	Petroland	100	100	
Sun Field Co	Oil exploration and production	Petroland	100	100	

##### The holding company

The next senior and ultimate holding company of the Group is O.C. Limited, which is based and listed in Petroland. The only transaction between the Group and O.C. Limited is the payment of dividends.

IAS 1.138(c)  
IAS 24.13

##### Joint venture in which the Group is a venturer

As set out in [Note 7.1.B](#), the Group has a 50% interest in Vessel Limited (2018: 50%).

##### Commentary

IFRS 12 requires information about the composition of the group. The list above discloses information about the Group's subsidiaries. Entities need to note that this disclosure is required for material subsidiaries. The above illustrates one example as to how the requirements set out in IFRS 12 can be met. When local laws or regulations require the list of investments in subsidiaries to be disclosed, the above disclosures should be modified to comply with the additional local requirements.

IFRS 12.10(a)

##### Material partly-owned subsidiaries

IFRS 12 requires certain information to be disclosed in respect of subsidiaries that have non-controlling interests that are material to the reporting entity (i.e., the Group). A subsidiary may have a significant non-controlling interest *per se*, but disclosure is not required if that interest is not material at Group level. Similarly, these disclosures do not apply to the non-controlling interests that are material in aggregate but not individually. Also, it should be noted that the information required by IFRS 12 should be provided separately for each individual subsidiary with a material non-controlling interest. The Group has concluded that the non-controlling interest in Pole Lubricants is not material to the Group.

IFRS 12.12

IFRS 12.12

When there is a change in the ownership of a subsidiary, IFRS 12 requires disclosure of a schedule that shows the effects on equity of any changes in its ownership interest in the subsidiary that did not result in a loss of control. When there are significant restrictions on the Group's or its subsidiaries' ability to access or use the assets and settle the liabilities of the Group, IFRS 12 requires disclosure of the nature and extent of significant restrictions. The Group did not have any such changes in the ownership or restrictions.

IFRS 12.18

IFRS 12.13

IFRS 12 requires information in respect of financial or other support provided to consolidated structured entities. The Group does not have any consolidated structured entities.

IFRS 12.14-17

# Notes to the consolidated financial statements *continued*

## Section 7. Group structure *continued*

### 7.2 Business combinations *continued*

#### 7.2A Accounting policy - Business combinations and goodwill *continued*

##### Commentary *continued*

IFRS 12.10(iv)

##### Material partly-owned subsidiaries *continued*

IFRS 12 requires disclosure of information to enable the users to evaluate the consequences of losing control of a subsidiary during the period. The Group did not lose control over a subsidiary during the period.

### 7.3 Group information and related party disclosures *continued*

#### Related party disclosures

IAS 24.18

During the year, the Group entered into the following transactions, in the ordinary course of business on an arm's length basis, with related parties:

US\$ million	Sales	Purchases	Other revenue	Accounts payable	Accounts receivable	IAS 24.18
Joint venture in which the parent is a venturer: Vessel Limited						
2019	2	34	1	-	-	
2018	-	57	-	-	-	

#### Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2018: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

IAS 24.21  
IAS 24.18(b)

##### Commentary

The disclosure that transactions with related parties are made on terms equivalent to an arm's length transaction is only required if an entity can substantiate such terms, but, IAS 24 does not require such disclosure. The Group was able to substantiate the terms and therefore provides the disclosure.

IAS 24.23

#### Compensation of key management personnel of the Group

	2019	2018	IAS 24.17
	US\$ million	US\$ million	
Short-term employee benefits	25	26	IAS 24.17(a)
Post-employment pension and medical benefits	6	6	IAS 24.17(b)
<b>Total compensation paid to key management personnel</b>	<b>31</b>	<b>32</b>	

There are no other related party transactions.

##### Commentary

Certain jurisdictions may require additional and more extensive disclosures, e.g., remuneration and benefits of key management personnel and members of the Board of Directors.

# Notes to the consolidated financial statements *continued*

## Section 8. Other

### 8.1 Events after the reporting period

On 20 January 2019, the Group performed its annual evaluation of reserves. The evaluation showed that total proved reserves of the Sand field were 15 million bbls (according to the previous evaluation, performed in December 2019, proved reserves were 11 million bbls). The Group considers the change in reserves to be a change in estimate and the related impact on depreciation/amortisation and impairment is to be accounted for prospectively from the date the new information becomes available. IAS 10.21  
IAS 10.10

The directors, at their meeting on 27 January 2019, approved a proposal to be put before the annual general meeting of shareholders to be held on 20 February 2019, for the payment of a final dividend of US\$140 million for the year ended 31 December 2019 (US\$0.09 dividend per share) to all ordinary shareholders registered at 27 January 2019. The amount is not recognised as a liability at 31 December 2019. IAS 10.12  
)

### 8.2 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. Of the other standards and interpretations that are issued, but not yet effective, as these are not expected to impact the Group, they have not been listed. IAS 8.30  
IAS 8.31(d)

#### **Amendments to IFRS 3: Definition of a Business**

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

#### **Amendments to IAS 1 and IAS 8: Definition of Material**

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

#### **Commentary**

IAS 8.30 requires disclosure of standards that have been issued but are not yet effective. These disclosures are required to provide known or reasonably estimable information to enable users to assess the possible impact of the application of such IFRSs on an entity's financial statements. The Group has listed all standards and interpretations that it reasonably expects may have an impact on either its accounting policy, financial position or performance, presentation and/or disclosures (i.e., omitting those standards, interpretations and/or amendments that have not impact).

Refer to Good Group (International) Limited 2019 for more information on other standards and interpretations issued, but not yet effective, which are not applicable to the Good Petroleum Group but may impact your entity.

# Appendix 1 - Alternative method of adopting IFRS 16 Leases

## Full retrospective transition approach for IFRS 16

### Commentary

This Appendix summarises the key changes to the Group's consolidated financial statements had the Group elected to adopt IFRS 16 using the full retrospective method.

An entity that elects to apply the full retrospective method of adoption would apply the requirements of IFRS 16 to each period presented in the financial statements by applying the requirements of IAS 8, subject to specific transition requirements for sale and leaseback transactions entered into and amounts previously recognised in respect of business combinations before the date of initial application (IFRS 16.C16-C19). The initial date of application would still be 1 January 2019. The cumulative effect of initially applying the standard would be recognised as an adjustment to the opening balance of retained earnings (or other component of equity) as at the start of the earliest comparative period presented.

The following practical expedients would not be available when applying the full retrospective method (these are only available when applying the modified retrospective method):

- ▶ **Measurement of the lease liability at the date of initial application:** Recognise a lease liability as at the date of initial application based on the discounted value of remaining lease payments using the incremental borrowing rate as at that date - instead, an entity would be required to go back to the commencement date of the lease and account for that lease from that date, i.e., by undertaking all lease assessments as at that date including lease term, lease payments and discount rate. In addition, the lease liability and hence the right-of-use assets would need to be remeasured over the life of the lease up to the date of initial application for changes to that lease, including but not limited to, lease modifications and changes in variable payments which are based on an index or rate as required by the standard.
- ▶ **Discount rates application to portfolio:** Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (e.g., leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment) - instead, an entity would need to determine the discount rate for each lease unless the general practical expedient in IFRS 16.B1 is applied.
- ▶ **Onerous contracts:** Rely on its assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review - instead, an entity would need to undertake an impairment review as required by IAS 37.
- ▶ **Ability to apply the short-term lease exemption:** Elect not to recognise the lease liability and right-of-use asset for which the lease term ends within 12 months of the date of initial application - instead, an entity may elect to apply the short-term lease exemption, by class of underlying asset, to a lease that, at the commencement date, has a lease term of 12 months or less and does not contain a purchase option.
- ▶ **Initial direct costs:** Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application - instead, these costs would need to be included in the measurement of the right-of-use asset at commencement of the lease.
- ▶ **Lease term:** Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease - instead, such assessments would need to be made from commencement date of the lease and then updated across the term of the lease (if required).
- ▶ **Previous finance leases:** Use the carrying amount of the lease asset and lease liability immediately before the date of initial application for previous finance leases measured applying IAS 17 as the carrying amount of the right-of-use asset and the lease liability at the date of initial application under IFRS 16 - instead, the requirements of IFRS 16 would need to be applied to such finance leases.

Below are the key changes to the Group's consolidated financial statements had it elected to use the full retrospective method. These changes are illustrated in [Good Group \(International\) Limited 2019](#).

- ▶ **Restatement of comparatives:** The comparative information for each of the primary financial statements would have been restated in accordance with IFRS 16. The Group would also have needed to present a statement of financial position as at 1 January 2018 (i.e., a third balance sheet) if the impact of adopting IFRS 16 was material.
- ▶ **Cumulative effect of adoption:** The cumulative effect of initially applying the standard would have been recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) as at 1 January 2018 in the statement of changes in equity for the year ended 31 December 2018. The narrative in [Note 2.4](#), describing the changes and impact of adopting IFRS 16, would have changed accordingly such that all the requirements in IAS 8, would have been followed (i.e., the information required by IAS 8.28(f) would have been disclosed).
- ▶ **Disclosures - impact of adopting IFRS 16:** In addition, the weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019, and an explanation of any difference between the discounted operating lease commitments as at 31 December 2018 and the lease liabilities as at 1 January 2019, as required by IFRS 16.C12, would not have been disclosed.

# Appendix 1 - Alternative method of adopting IFRS 16 Leases *continued*

## Full retrospective transition approach for IFRS 16 *continued*

### **Commentary *continued***

- ▶ **Disclosures - old accounting policies:** The accounting policy and the significant judgements, estimates and assumptions disclosed in [Note 5.5](#) would not have included the significant accounting policies, judgements, estimates and assumptions under the previous standard and interpretations (i.e., IAS 17, IFRIC 4, SIC-15 and SIC-27). A description to distinguish between the accounting policies, judgements, estimates and assumptions that applied before and those that applied after 1 January 2019 would not have been required.
- ▶ **Disclosures - comparatives:** The disclosures for the comparative period in the notes to the consolidated financial statements would not have applied the requirements of the previous standard and interpretations, while the disclosures required by IFRS 16 would have included comparative information.

## Appendix 2 - Additional wording for IFRS 15

### Commentary

The main body of Good Petroleum only illustrates example wording with respect to the impact of IFRS 15 on the transactions that are relevant to the Group's transactions and nature of its business. This Appendix illustrates some additional wording, which may be useful to consider for other types of transactions which oil and gas entities may encounter. These are illustrative only and entities should ensure their disclosures properly reflect the fact pattern of the transactions relevant to its own operations. It should also monitor developments to ensure this illustrative disclosure continues to be relevant.

For additional information on other potential IFRS 15 disclosures, refer to [Good Group \(International\) Limited 2019](#).

### 3.3 Revenue from contracts with customers

#### 3.3B Accounting Policy - revenue from contracts with customers

[...]

##### Provisionally priced commodity sales

Some of the Group's sales of LNG to customers contain terms which allow for price adjustments based on the market price at the end of a relevant quotational period (QP) stipulated in the contract. These are referred to as provisional pricing arrangements. Adjustments to the sales price occur based on movements in quoted market prices up to the end of the QP.

Revenue will be recognised on these contracts when control passes to the customer and will be measured at the amount to which the Group expects to be entitled. This will be the estimate of the price expected to be received at the end of the QP, i.e., the forward price. For these provisional pricing arrangements, any future changes that occur over the QP are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. Given the exposure to the commodity price, these provisionally priced trade receivables will fail the cash flow characteristics test within IFRS 9 and will be required to be measured at fair value through profit or loss from initial recognition and until the date of settlement. These subsequent changes in fair value are recognised in the statement of profit or loss and other comprehensive income each period and presented separately from revenue from contracts with customers as part of 'Fair value gains/losses on provisionally priced trade receivables'. Changes in fair value over, and until the end of, the QP, are estimated by reference to updated forward market prices for LNG as well as taking into account relevant other fair value considerations as set out in IFRS 13, including interest rate and credit risk adjustments.

### Commentary

#### Embedded derivatives in commodity arrangements

IFRS 15.7

IFRS 15 states that if a contract is partially within scope of this standard and partially in the scope of another standard, entities will first apply the separation and measurement requirements of the other standard(s). Therefore, to the extent that there is an embedded derivative contained within a revenue contract, e.g. provisional pricing mechanisms such as diesel price linkage in a crude oil contract, or oil price linkage in an LNG sales contract, these will continue to be assessed and accounted for in accordance with IFRS 9.

Under IFRS 9, if a feature of a revenue contract is considered to be an embedded derivative that is not closely related to a non-financial host contract, the embedded derivative is required to be separated from the non-financial host contract. If it is closely related, it is not required to be separated. In the event that the embedded derivative is considered to be closely related to the non-financial host contract, once transfer of control of the product has occurred and the entity has an unconditional right to receive cash and the host contract becomes a financial asset (i.e., a receivable), the accounting changes.

Under IFRS 9, embedded derivatives are not separated from a host financial receivable. Instead, the receivable will fail the contractual cash flows test. As a consequence, the whole receivable will have to be subsequently measured at fair value through profit or loss from the date of recognition of that receivable.

IFRS 15 does not impact the treatment of embedded derivatives under IFRS 9. Revenue within the scope of IFRS 15 will be recognised when control passes to the customer and will be measured at the amount to which the entity expects to be entitled. Any subsequent fair value movements in the receivable would be recognised in profit or loss. However, as a result of the specific disclosure requirements of IFRS 15, these need to be presented separately from IFRS 15 revenue. This is discussed in relation to provisionally priced sales below.

#### Provisionally priced sales contracts

Sales contracts for certain commodities (e.g., LNG or crude oil) often provide for provisional pricing at the time of shipment. The final sales price is often based on the average quoted market prices during a subsequent period (the 'quotational period' or 'QP'), the price on a fixed date after delivery or the amount subsequently realised by another party. These QP pricing exposures may meet the definition of an embedded derivative under IFRS 9, in which case, the treatment of embedded derivatives in commodity contracts discussed above should be followed.

## Appendix 2 - Additional Wording for IFRS 15 *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting policy - revenue from contracts with customers *continued*

[...]

##### **Commentary *continued***

IFRS 15.47

From a revenue recognition perspective, under IFRS 15, revenue will be recognised when control passes to the customer and will be measured at the amount to which the entity expects to be entitled, being the estimate of the price expected to be received at the end of the QP, i.e., the forward price.

If shipping is considered to be a separate performance obligation, some of the revenue may need to be allocated between the commodity and shipping services. See below for further discussion on shipping services.

With respect to the presentation of any fair value movements in the receivable from the date of sale, entities have often presented the QP movements as part of revenue. IFRS 15 does not address the presentation of fair value movements in receivables. Likewise, IFRS 9 does not specify where such movements should be presented in profit or loss.

IFRS 15 only addresses a subset of total revenue (i.e., revenue from contracts with customers). That is, transactions outside the scope of IFRS 15 might result in the recognition of revenue. However, while IFRS 15 does not specifically prohibit fair value movements of a receivable from being described as revenue, it does specifically require an entity to disclose revenue from contracts with customers separately from its other sources of revenue, either in the statement of comprehensive income or in the notes. Therefore, entities will need to track these separately.

IFRS 15.113

##### **Freight/shipping services**

Under the terms of the Group's current contractual arrangements, transportation and shipping is a cost of selling for the Group, and is not a separate performance obligation provided to its customers. Under alternative contractual arrangements that are common across the oil and gas industry, shipping can be identified as a separate performance obligation in contracts with customers, for example, if the terms of the arrangement are 'CIF', i.e., inclusive of cost, insurance and freight, and the shipping occurs after control of the crude oil or petroleum product has transferred to the customer.

In this case, the Group would be required to allocate the transaction price to the various performance obligations, including shipping. Revenue will then be recognised when the goods are delivered and when the shipping services have been provided. Each contractual arrangement must be analysed to determine whether control of each of the separate performance obligations occurs over time or at a point in time. Typically under the Group's contractual arrangements, control of the goods occurs at a point in time, and for the shipping services, over time.

In some instances, the Group does receive a portion of the transaction price in cash for each shipment at or near the date of shipment under a provisional invoice. Given this, a portion of the transaction price relating to these freight/shipping services is received in advance of the Group providing these services. Such amounts are recognised as a contract liability upon receipt under IFRS 15 and are then recognised as revenue overtime as the services are provided.

##### **Assessing the treatment of revenue from PSAs**

The Group earns a share of production from PSAs and sells the crude oil and petroleum products to customers. In the Group's contractual arrangements, the customer is considered to meet the definition of a customer in accordance with IFRS 15, and accordingly the transactions are within the scope of IFRS 15.

As set out in [Note 3.B\(iv\)](#), under the current PSAs, the Group accounts for its share of revenues net of the profit oil sold, which is considered to constitute payment of corporate income tax imposed upon and due by the Group.

##### **Commentary**

It is necessary to consider whether such contracts are within the scope of IFRS 15. That is, whether the relationship between the government entity and the contracting enterprise (i.e., the oil and gas company) represents one between a customer and a supplier. IFRS 15 defines a customer as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration".

IFRS 15  
Appendix A

There are no specific requirements within IFRS governing the accounting for PSAs, which has resulted in accounting approaches that have evolved over time. These contracts are generally considered to be more akin to working interest relationships than pure services contracts. This is because the contracting enterprise assumes risks associated with performing the exploration, development and production activities and receives a share (and often a greater share) of future production as specified in the contract. When an entity determines it has an interest in the mineral rights themselves, revenue is recognised only when the oil and gas company receives its share of the extracted minerals under the PSA and sells those volumes to third-party customers. In other arrangements, the entity's share of production is considered a fee for services (e.g., construction, development and/or operating services), which is recognised as the services are rendered to the national government entity.

## Appendix 2 - Additional Wording for IFRS 15 *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting Policy - revenue from contracts with customers *continued*

[...]

##### **Commentary *continued***

IFRS 15 notes that, in certain transactions, while there may be payments between parties in return for what appears to be goods or services of the entity, a counterparty may not always be a 'customer' of the entity. Instead, the counterparty may be a collaborator or partner that shares the results from the activity or process (such as developing an asset in a collaboration arrangement), rather than to obtain the output of the entity's ordinary activities. Generally, contracts with collaborators or partners are not within the scope of the standard, except as discussed below.

IFRS 15.6

The IASB decided not to provide additional application guidance for determining whether certain revenue generating collaborative arrangements are in the scope of the standard. The Basis for Conclusions to IFRS 15 explains that it would not be possible to provide application guidance that applies to all collaborative arrangements.

IFRS 15.BC54

In determining whether the contract between a government entity and a contracting enterprise is within the scope of the standard, an entity must look to the definition of a customer and what constitutes its 'ordinary activities' and there should also be a transfer of control of a good or service to the customer (if there is one). It may be that certain parts of the PSA relationship involve the contracting enterprise and the national government entity acting as collaborators (and, hence, that part of the arrangement would be outside the scope of IFRS 15), while for other parts of the arrangement the two parties may act as supplier and customer. The latter will be within the scope of IFRS 15 and an analysis of the impact of the requirements will be necessary.

##### **Take-or-pay contracts**

The Group has take-or-pay clauses embedded in its long-term gas sales agreements. The contractual arrangements require the customer to pay for a minimum amount of gas per annum, even if it does not take the volumes.

A feature unique to take-or-pay contracts is the terms relating to payments made for volumes not taken. Certain agreements do not allow payments received for unused volumes to be applied to future volumes. In these instances, the Group has no obligation to deliver the unused volumes in the future. Such amounts are generally only be recognised as revenue once the Group's obligation has expired (i.e., once the customer's right to volumes has expired unused). The final assessment of unused volumes is only possible at the end of each contract year, at the point when the customer's right to take the volumes expires. In the event that it is clear prior to the end of the period that the volumes cannot be taken, the Group will recognise the revenue in respect of those take or pay volumes at that point.

For those contractual arrangements where payments received for unused volumes can be applied to future volumes, the Group considers it has received consideration in advance for some future unsatisfied performance obligations (i.e., the delivery of the unused volumes at a point in the future). This amount represents a contract liability. The Group makes an assessment of whether the customer is likely to take its unused volumes in determining how to account for the amounts deferred and in considering whether a significant financing component exists.

##### **Commentary**

An entity will need to determine how such future volumes can be taken. That is, whether the timing of the future transfer of those volumes is at the discretion of the customer or is determined by the entity itself. This determination will be important as it may require an assessment of the time value of money (i.e., the existence of a significant financing component).

It will also be necessary for an entity to understand whether the customer is likely to take its unused volumes as this may require an assessment of the requirements relating to unexercised customer rights or breakage. This could impact the amount and timing of revenue recognised.

Such determinations will need to be made in light of the contract terms and an assessment of the expected customer behaviours. For example, such an assessment may involve considering whether the make-up volumes:

- ▶ Will be the first volumes taken at the start of the following period;
- ▶ Can only be taken after the minimum volumes have been satisfied in the following periods; or
- ▶ Can only be taken after a certain amount of time or at the end of the contract period.

##### **Breakage (customers' unexercised rights)**

IFRS 15 requires that when an entity receives consideration that is attributable to a customer's unexercised rights, the entity needs to recognise a contract liability equal to the amount prepaid by the customer (because the entity has not yet satisfied the performance obligations to which the payment relates). However, IFRS 15 discusses the situation where, in certain industries, customers may pay for goods or services in advance, but may not ultimately exercise all of their rights to these goods or services - either because they choose not to or are unable to. IFRS 15 refers to these unexercised rights as 'breakage'.

IFRS 15.B44-4  
7



## Appendix 2 - Additional Wording for IFRS 15 *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting policy - revenue from contracts with customers *continued*

[...]

##### **Commentary *continued***

IFRS 15 states that when an entity expects to be entitled to a breakage amount, the expected breakage will be recognised as revenue in proportion to the pattern of rights exercised by the customer. Otherwise, breakage amounts will only be recognised when the likelihood of the customer exercising its right becomes remote.

This may apply to take-or-pay contracts, for which payments are received in relation to make-up volumes and the customer's rights remain unexercised. Such breakage provisions may be applicable if:

- ▶ A customer is unable to use the make-up volumes in other areas of its own operations
  - ▶ A customer is unable to store the make-up volumes and use them after the take-or-pay contract has expired
  - ▶ A customer is unable to take delivery of the make-up volumes and sell them into the market
- Or
- ▶ There are limitations (physical or contractual) that prevent the customer from taking all of the make-up volumes

For take-or-pay contracts, this may mean that an entity may be able to recognise revenue in relation to breakage amounts in an earlier period, provided it can demonstrate it is not required to constrain its estimate of breakage.

This could potentially occur in several ways:

- ▶ At contract inception, the oil and gas entity may be able to reliably estimate the amount of breakage and would include that amount in the transaction price and allocate that to expected actual usage.
- ▶ If the entity cannot estimate an amount of breakage, it will recognise the revenue associated with those unexercised rights when it becomes remote that they will be exercised. This could occur during a make-up period after the initial term of the contract or when the deficiency make-up period expires outright (which would be consistent with current accounting).

It is also possible that, given the nature of these arrangements and the inherent uncertainty in being able to predict a customer's behaviour, it may be difficult to satisfy the requirements relating to constraint because the entity's experience may not be predictive of the outcome at this level of certainty (i.e., highly probable). Certain arrangements also allow for options for additional volumes in excess of the minimum take or pay obligation.

##### **Trading activities**

The Group engages in trading activities (e.g., crude oil cargos) through which it: i) takes delivery of the product and then resells it; or ii) resells the crude oil without taking delivery of the product first. In circumstances where the Group takes physical delivery and becomes the legal owner of a commodity, it may still only be as part of its trading activities. Such transactions do not fall within the normal purchase and sales exemption when "for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin". Where the Group has a practice of settling similar physical commodity-based contracts net in cash, these contracts also do not fall within the normal purchase and sales exemption. In that case, the purchase and sales contracts are accounted for as derivatives within the scope of IFRS 9.

IAS 32.9(c),  
IFRS 9.2.6(c)

IAS 32.9(b),  
IFRS 9.2.6(b)

##### **Commentary**

In March 2019, the Interpretations Committee discussed a question that arises when an entity enters into contracts to buy or sell a non-financial item, such as a commodity that is physically settled, records the settlement on a gross basis and concludes that it must record the contracts as derivatives, at fair value through profit or loss, in accordance with IFRS 9 (because they do not meet the 'own use exception' in paragraph 2.4 of IFRS 9, or they have been designated as FVPL in accordance with paragraph 2.5 of IFRS 9). Specifically, the question was whether on settlement of such a contract the previously recognised fair value movements should be reversed, resulting in any inventory recorded on a purchase contract to be reflected at the amount of cash paid or any revenue recorded on a sales contract to be reflected at the amount of cash received. The Interpretations Committee decided that, on settlement of such a contract, the previously recorded fair value movements on the contract would not be reversed as IFRS 9 neither permits nor requires an entity to reassess or change its accounting for a derivative contract solely because that contract was ultimately settled.

##### **Principal versus agent considerations in commodity-based contracts**

Where the Group acts as agent on behalf of a third party to procure or market energy commodities, any associated fee income is recognised but no purchase or sale is recorded.

## Appendix 2 - Additional Wording for IFRS 15 *continued*

### 3.3 Revenue from contracts with customers *continued*

#### 3.3B Accounting policy - revenue from contracts with customers *continued*

[...]

##### **Commentary *continued***

Principal versus agent assessments will be important as they affect the timing of recognition and amount of revenue the entity recognises. The critical factor to consider is whether the entity has control of the specified good or service before transferring on to its customer.

##### *Relationships with joint arrangement partners*

It is not uncommon for valid vendor-customer relationships to exist alongside joint arrangement/collaborator contracts such as joint operating agreements or PSAs. The manager of a joint arrangement may have a vendor-customer contract to purchase volumes produced by the non-operating parties. The manager would then on sell the product to third parties, and, depending on the specific contract terms, could act as the principal in the onward sale, or as agent that is selling on behalf of the other joint arrangement partners.

Similarly, an entity with a gathering station or processing plant could purchase commodities from other parties with tenements or fields in the same region at the point of entry into the plant. Both the seller and purchaser would have to consider whether the purchaser is a principal or an agent in the onward sale to the third-party customer and account for the revenue accordingly.

##### *Royalty payments*

Oil and gas companies frequently enter into a range of different royalty arrangements with owners of petroleum rights (e.g., governments or private land owners) and, at times, the treatment is diverse. It is unclear whether, and how, such arrangements should be accounted for under IFRS 15.

In situations where the royalty holder retains or obtains a direct interest in the underlying production, it may be that the relationship between the oil and gas company and the royalty holder is more like a collaborative arrangement (and, hence, is not within the scope of IFRS 15).

If these royalty payments are in scope, the requirements relating to principal versus agent in IFRS 15 will be helpful in assessing how these royalty payments should be presented. Specifically, an entity will need to determine whether it obtains control of all of the underlying minerals once extracted, sells the product to its customers and then remits the proceeds to the royalty holder. If so, the oil and gas company will be considered to be acting as the principal and, hence, would recognise the full amount as revenue with any payments to the royalty holder being recognised as part of cost of goods sold (or possibly as an income tax, depending on the nature of the royalty payment). Where the entity does not obtain control over those volumes, it may be acting as the royalty holder's agent and extracting the minerals on its behalf.

## Appendix 3 - Information in other illustrative financial statements available

	Good Group	Good Petroleum	Good Group -Alternative Format	Good Group Interim	Good First-time Adopter	Good Investment Fund (Equity and Liability)	Good Real Estate	Good Mining	Good Bank	Good Insurance
<b>International Financial Reporting Standards (IFRS)</b>										
IFRS 1	<i>First-time Adoption of International Financial Reporting Standards</i>									
IFRS 2	✓		✓	✓	✓		✓			✓
IFRS 3	✓	✓	✓	✓	✓		✓	✓	✓	✓
IFRS 4	<i>Insurance Contracts</i>									
IFRS 5	✓		✓	✓	✓		✓		✓	
IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>									
IFRS 7	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 8	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IFRS 9	✓		✓	✓		✓	✓	✓	✓	
IFRS 10	✓		✓	✓					✓	✓
IFRS 11	✓	✓	✓	✓						
IFRS 12	✓	✓	✓					✓	✓	✓
IFRS 13	✓	✓	✓	✓				✓	✓	✓
IFRS 14	<i>Regulatory Deferral Accounts</i>									
IFRS 15	✓	✓	✓	✓		✓		✓	✓	
IFRS 16	✓			✓						
IFRS 17	<i>Insurance Contracts*</i>									
<b>International Accounting Standards (IAS)</b>										
IAS 1	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 2	✓	✓	✓	✓	✓		✓	✓		
IAS 7	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 8	✓	✓	✓	✓	✓	✓	✓	✓		✓
IAS 10	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 11	<i>Construction Contracts</i>									
IAS 12	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 16	✓	✓	✓		✓		✓	✓	✓	✓
IAS 17		✓	✓		✓		✓	✓	✓	✓
IAS 18		✓			✓		✓	✓	✓	✓
IAS 19	✓	✓	✓	✓	✓			✓	✓	✓
IAS 20	✓		✓	✓	✓					
IAS 21	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 23	✓	✓	✓	✓	✓		✓	✓	✓	✓
IAS 24	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>									
IAS 27	<i>Separate Financial Statements</i>									
IAS 28	✓	✓	✓	✓	✓		✓		✓	✓

\*Good Life Insurance (International) Limited and Good General Insurance (International Limited) provide illustrative disclosures to meet the requirements of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*

## Appendix 3 - Information in other illustrative financial statements available continued

	Good Group	Good Petroleum	Good Group -Alternative Format	Good Group Interim	Good First-time Adopter	Good Investment Fund (Equity and Liability)	Good Real Estate	Good Mining	Good Bank	Good Insurance	
<b>International Accounting Standards (IAS) continued</b>											
IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>										
IAS 32	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
IAS 33	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
IAS 34				✓							
IAS 36	✓	✓	✓	✓	✓		✓	✓	✓	✓	
IAS 37	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
IAS 38	✓	✓	✓	✓	✓		✓	✓	✓	✓	
IAS 39	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
IAS 40	✓			✓	✓		✓				
IAS 41	<i>Agriculture</i>										
<b>Interpretations</b>											
IFRIC 1	✓	✓	✓	✓	✓				✓		
IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>										
IFRIC 4			✓	✓	✓				✓		
IFRIC 5			✓	✓				✓			
IFRIC 6	✓			✓	✓	✓					
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>										
IFRIC 9	✓			✓	✓				✓	✓	
IFRIC 10	✓			✓	✓						
IFRIC 12	<i>Service Concession Arrangements</i>										
IFRIC 13	<i>Customer Loyalty Programmes</i>					✓					
IFRIC 14	<i>IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>										
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>						✓				
IFRIC 16	✓			✓	✓	✓					
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>				✓						
IFRIC 18			✓	✓	✓						
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>										
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>							✓			
IFRIC 21	✓			✓	✓				✓		
IFRIC 22	✓									✓	
IFRIC 23	✓				✓						
SIC 7	<i>Introduction of the Euro</i>										
SIC 10	<i>Government Assistance – No Specific Relation to Operating Activities</i>										
SIC 15			✓	✓	✓				✓		

## Appendix 3 - Information in other illustrative financial statements available *continued*

Good Group	Good Petroleum	Good Group -Alternative Format	Good Group Interim	Good First-time Adopter	Good Investment Fund (Equity and Liability)	Good Real Estate	Good Mining	Good Bank	Good Insurance
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### Interpretations *continued*

SIC 25	<i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i>			✓					
SIC 27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>		✓	✓					
SIC 29	<i>Service Concession Arrangements: Disclosures</i>								
SIC 31	<i>Revenue – Barter Transactions Involving Advertising Services</i>								
SIC 32	<i>Intangible Assets – Web Site Costs</i>								
✓	This standard or interpretation is incorporated into these illustrative financial statements.								

# Glossary

A glossary of oil and gas specific terminology and abbreviations used in the publication:

<b>Carried interest</b>	An agreement by which an entity that contracts to operate a mineral property and, therefore, agrees to incur exploration or development costs (the carrying party), is entitled to recover the costs incurred (and usually an amount in addition to actual costs incurred) before the entity that originally owned the mineral interest (the carried party) is entitled to share in revenues from production.
<b>Carried party</b>	The party for whom funds are advanced in a carried interest arrangement.
<b>Carrying party</b>	The party advancing funds in a carried interest agreement.
<b>Cost recovery oil</b>	Oil revenue paid to an operating entity to enable that entity to recover its operating costs and specified exploration and development costs from a specified percentage of oil revenues remaining after the royalty payment to the property owner.
<b>Development well</b>	A well drilled to gain access to oil or gas classified as proved reserves.
<b>Exploratory well</b>	A well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.
<b>Farm out and farm in</b>	An agreement by which the owner of operating rights in a mineral property (the farmor) transfers a part of that interest to a second party (the farmee) in return for the latter's paying all of the costs, or only specified costs, to explore the property and perhaps to carry out part or all of the development of the property if reserves are found.
<b>Full cost method</b>	An accounting concept by which all costs incurred in searching for, acquiring, and developing mineral reserves in a cost centre are capitalised, including dry hole costs.
<b>Geological and geophysical costs (G&amp;G)</b>	Costs of topographical, geological, geochemical, and geophysical studies.
<b>Overlift or underlift</b>	Overlift is the excess of the amount of production that a participant in a joint venture has taken as compared to that participant's proportionate share of ownership in total production. Underlift is the shortfall in the amount of production that a participant in a joint venture has taken as compared to that participant's proportionate share of ownership in total production.
<b>Production sharing agreement (PSA)</b>	A contract between a national oil company or the government of a host country and a contracting entity (contractor) to carry out oil and gas exploration and production activities in accordance with the terms of the contract, with the two parties sharing mineral output.
<b>Profit oil</b>	Revenue in excess of cost recovery oil and royalties.
<b>Royalty</b>	A portion of the proceeds from production, usually before deducting operating expenses, payable to a party having an interest in a lease.
<b>Sales method</b>	A method of revenue recognition by which a joint venturer records revenue based on the actual amount of product it has sold (or transferred downstream) during the period. No receivable or other asset is recorded for undertaken production (underlift) and no liability is recorded for overtaken production (overlift), unless, in the case of the party in a cumulative overlift position only, sufficient reserves do not remain to 'make-up' the overtaken volumes, at which time, a liability related to the amount overtaken in excess of remaining reserves would be recorded.
<b>Successful efforts method</b>	An accounting concept that capitalises only those upstream costs that lead directly to finding, acquiring and developing mineral reserves, including delay rentals, geological and geophysical costs and exploratory dry holes, are charged to expense.
<b>Take-or-pay contracts</b>	An agreement between a buyer and seller in which the buyer will still pay some amount even if the product or service is not provided. If the purchaser does not take the minimum quantity, payment is required for that minimum quantity at the contract price. Normally, deficiency amounts can be made up in future years if purchases are in excess of minimum amounts.
<b>Upstream activities</b>	Exploring for, finding, acquiring, and developing mineral reserves up to the point that the reserves are first capable of being sold or used, even if the entity intends to process them further.

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