4. Change in Accounting Policies and Disclosures

The accounting policies applied by the Company in preparation of its 2019 year-end Consolidated Financial Statements are the same as applied for the previous year, except for the first application of the new standards described below. Other than that, amendments, improvements to and interpretations of standards effective from 1 January 2019 have no material impact on the Consolidated Financial Statements.

New, Revised or Amended IFRSs Applied from 1 January 2019

IFRS 16 "Leases"

In May 2016, the IASB published the new standard IFRS 16, which replaces the previous guidance on leases, including IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases—Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 introduces a uniform lessee accounting model. Applying that model, a lessee is required to recognise a right-of-use asset representing the lessee's right to use the underlying asset and a financial liability representing the lessee's obligation to make future lease payments.

There are exemptions for short-term leases and leases of low-value assets. Lessor accounting remains comparable to that provided by the previous leases standards (IAS 17) and hence lessors will continue to classify their leases as operating leases or finance leases.

The Company adopted the new standard IFRS 16 on 1 January 2019 using the modified retrospective method and therefore the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings which is nil at 1 January 2019, with no restatement of comparative information.

Identifying a lease

Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a specified period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient according to which it is not required to reassess whether a contract is, or contains, a lease. The previous determination pursuant to IAS 17 and IFRIC 4 of whether a contract is, or contains, a lease is thus maintained for existing contracts.

The Company as a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on assessment of whether the risks and rewards incidental to ownership of the underlying asset were transferred. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of its leases. Leases which were classified as operating leases under IAS 17 are now recognised on the balance sheet.

When applying IFRS 16 for the first time, the Company has used the following practical expedients for leases previously classified as operating leases under IAS 17:

- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- to generally measure the right of use relating to the leased asset at the amount of the lease liability, using the discount rate at 1 January 2019. Where accrued lease liabilities existed, the right-of-use asset has been adjusted by the amount of the accrued lease liability under IFRS 16. At initial application of IFRS 16, the measurement of the right-of-use does not include initial direct costs. In some cases, the value of right-of-use assets may differ from the value of the liabilities due to offsetting against existing provisions or as a result of valuation allowances; and
- not to apply the new recognition requirements to short-term leases and to leases of low value assets as soon as the new standard is effective.

The Company's operating leases mainly relate to real estate assets, company cars and equipment. The most significant impact identified by the Company relates to its operating leases of real estate assets (such as land, warehouses, storage facilities and offices).

For leases that were classified as finance leases under IAS 17, the Company did not change the carrying amount of the right-of-use asset and the lease liability as of 31 December 2018, measured under IAS 17.

The Company as a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor as IFRS 16 compared to previous leases standards does not trigger any change from previous accounting treatment.

Impacts on financial statements

The Company has presented right-of-use assets within "Property, plant and equipment" and lease liabilities within "Financing liabilities" and classified the principal portion of lease payments within financing activities and the interest portion within operating activities. When measuring lease liabilities, the Company discounts lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 1.23%. At 1 January 2019, the impact of renewal options that are reasonably certain to be exercised has been assessed as not significant for the Company.

(In € million)	1 January 2019
Operating lease commitment at 31 December 2018 as disclosed in the Company's Consolidated Financial Statements	**1,494**
Short-term and low-value leases recognised on a straight-line basis as expenses	(29)
Discounted effect using the incremental borrowing rate at 1 January 2019	(113)
Finance lease liabilities recognised as at 31 December 2018	330
Lease liabilities recognised at 1 January 2019	**1,682**

IFRIC 23 "Uncertainty over Income Tax Treatments"

In 2017, the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments". The interpretation clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. In assessing the uncertainty, an entity shall consider whether it is probable that a taxation authority will accept the uncertain tax treatment.

The Company adopted the interpretation on 1 January 2019 and has elected to apply the limited exemption in IFRIC 23 relating to transition for classification and measurement, and accordingly has not restated comparative periods in the year of initial application. As a consequence, any adjustments to the carrying amounts of tax liabilities are recognised at the beginning of the reporting period, with the difference recognised in opening equity. The impact is € 122 million as at transition date.

In addition, the uncertain tax liabilities formerly included under provisions have been reclassified to current income tax liabilities for € 326 million.

New, Revised or Amended IFRSs Issued, not Applicable but Anticipated

Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"

Following the financial crisis, the reform and replacement of benchmark interest rates such as interbank offered rates ("IBORs") has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes.

The Company has elected to early adopt the Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform" issued in September 2019 by the IASB. The amendments provide temporary relief from applying specific accounting requirements to hedging relationships directly affected by the IBOR reform. The reliefs have the effect that the IBOR reform should not cause hedge accounting to terminate. The Company has mainly hedged its debts in bonds and loans with interest rate swaps based on Euribor and US-Libor. In assessing whether the hedges are expected to be highly effective on a forward-looking basis, the Company has therefore assumed that Euribor and US-Libor interest rates are not altered by IBOR reform and has not discontinued the hedges. Details on the interest rate swaps are developed under Note 37.4.

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New, Revised or Amended IFRSs Issued but not yet Applied

A number of new or revised standards, amendments and improvements to standards as well as interpretations are not yet effective for the year ended 31 December 2019 and have not been applied in preparing these Consolidated Financial Statements and early adoption is not planned:

Standards and amendments	IASB effective date for annual reporting periods beginning on or after	Endorsement status
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	Endorsed
Amendments to IFRS 3: Definition of a Business	1 January 2020	Not yet endorsed
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020	Endorsed
IFRS 17 "Insurance Contracts"	1 January 2021	Not yet endorsed
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	1 January 2022	Not yet endorsed