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Dear Colin

**ED 6: THE CASH-GENERATING UNIT (CGU) IN THE CONTEXT OF THE EXPLORATION
FOR AND EVALUATION OF MINERAL RESOURCES**

I am pleased to have the opportunity to respond on behalf of BP p.l.c. to the request for comments on the question of the definition of a cash-generating unit (CGU) for use in the context of exploration and evaluation units.

For BP, what is important in respect of exploration and evaluation activities is that the expenditures held in suspense as assets pending determination of whether commercial reserves exist are not written down for impairment prematurely. There are two major accounting factors which will contribute to this objective:

- A test for impairment should be performed only when an assessment shows that relevant indicators of impairment are present and,
- The test for impairment must be carried out using a definition of the asset or the CGU which is appropriate for the case under review.

CGU

We note that the "ED 6 Endnote" suggests that an individual test well is the level at which the impairment test should be performed, because it is "capable of producing future cash inflows that are observable and capable of reliable measurement because there is an active market for crude oil".

While it is true that the oil produced from unproved reserves by a single test well can be sold in an active market, we contend that this is not sufficient justification for a well to be classified as an individual asset or CGU. In our opinion, it is the development of a commercial field that actually results in cash flows which can be used for a reliable impairment test and the individual well will form only a part of this larger asset. It is impossible to forecast cash flows without having completed the full assessment of the results of all the test wells to determine whether the prospect is commercially viable, as it is only this process which provides the requisite reliable estimates of proved reserves and costs to develop and transport to market, including the gathering and storage systems that are necessary to allow proper exploitation of the prospect. Given the fact that the wells are grouped together in order to assess the commercial viability of the prospect, we do not

The definition of an appropriate CGU for the entity's activity is a matter of judgement and can be arrived at only when the scope and technical applications to be used in the development have been determined. We believe that this approach is consistent with the general definition of CGU used in IAS 36, but if in the Board's view this is not the case, we would support the use of a special definition of CGU for exploration and appraisal assets.

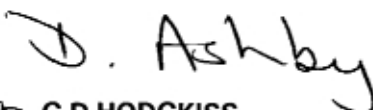
Although an impairment test is not possible until the appraisal is complete, we believe that a review should be conducted on a regular basis (every twelve months at least) to confirm that work is either under way or planned in the near future to progress the exploration asset to the point where the associated costs and volumes can be reasonably estimated. If this is not the case, consideration should be given as to whether it is impaired.

Impairment review terminology

We are still concerned that the latest draft of ED 6, as indicated in the document of July 2004 entitled "Effect of Board redeliberations" (the Redeliberations), deals with the issue of impairment in terms different from those of IAS 36. We note from the Redeliberations' comment against paragraph 13 that the phrase "assess...for impairment" is used to refer to the process of comparing carrying value with recoverable amount (also referred to as the test for impairment in paragraph 10 (a) of IAS 36), which is performed when an indication that carrying value exceeds recoverable amount, whereas the comments against paragraph 12 imply that "assess for impairment" refers to the review for impairment indicators. We respectfully suggest that in order to avoid any doubt as to the requirements of ED 6, a clear distinction must be made between the two stages of the impairment review process by harmonising the language of ED 6 with that of paragraph 9 of IAS 36, which distinguishes between i) an assessment of whether there is any indication that an asset may be impaired, and ii) the test for impairment, which comprises a comparison of the carrying amount of the asset with its recoverable amount.

If you have any points you wish to discuss, please do not hesitate to contact me at the address above.

Yours sincerely


P.P. G D HODGKISS