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25 March 2004

Mr Colin Fleming
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr Fleming

**IASB ED6 Exploration for and Evaluation of Mineral Resources**

Santos is pleased to provide you with comments on IASB ED6.

The IASB's predecessor organisation (IASC) recognised the importance of the Extractive Industries and in 1998 established a steering committee to carry out initial work on the accounting and reporting by companies engaged in extractive activities. The work culminated in 2000 in the publication of the soundly based Issues Paper "Extractive Industries". Since that time it appears the IASB has done little to advance an appropriate international financial reporting standard for the Extractive Industries.

The Extractive Industries are an important sector of many countries' economies and especially Australia's. Santos strongly encourages the International Accounting Standards Board ("Board") to take a more proactive leadership role in developing a comprehensive financial reporting standard to enhance consistency in global financial reporting for companies engaged in the Extractive Industries.

Santos views IASB ED6 as a "stop-gap" measure to allow companies operating in the Extractive Industries to continue to prepare financial reports using a number of diverse methods to account for exploration and evaluation expenditure. This diversity results in a wide range of financial outcomes which contributes to the lack of comparability of financial reporting for companies operating in the Extractive Industries on a global basis.

The proposal to allow companies the option to "grandfather" their existing treatments appears to be, in our view, a stratagem to stage the appearance that companies in the Extractive Industries are deemed IFRS compliant without achieving the stated objectives of the IASB i.e. *to provide global users with highly transparent and comparable information in financial statements and to bring about the convergence of national accounting standards and International Accounting Standards to high quality solutions.* These objectives will clearly not be achieved by IASB ED6.

Given the broad spectrum of current accounting practices ranging from all exploration and evaluation expenditure being capitalised, to all expenditure being expensed, Santos believes that IASB ED6 emphasis should be to encourage companies to develop a new accounting policy for exploration and evaluation expenditure which is consistent with the IASB conceptual framework. This should be the preferred option.

Comments on the specific aspects of the exposure draft IASB ED6 are provided below.

## 1. Definition and Additional Guidelines

It is appropriate to define the activities and costs to which this standard is to apply.

We suggest that paragraph 6 be expanded to clarify that exploration and evaluation assets include both direct and indirect (or overhead) costs arising from the exploration and evaluation activities.

The standard should also prescribe that exploration and evaluation assets acquired through purchase should be capitalised at the amount paid for such assets, being an indication of current fair value.

Paragraph 8 should be expanded to exclude production costs incurred (such as costs to operate and maintain wells and related equipment, flowlines and processing facilities).

## 2. Method of accounting for exploration and evaluation of mineral resources

We do not believe it is appropriate to exempt companies from the provisions contained in paragraphs 10-12 of IAS8 to allow companies to state they are IFRS compliant. In our view, IASB ED6 should encourage all companies to adopt accounting policies for exploration and evaluation which are consistent with the IASB framework. However, if a company's existing accounting policies are not consistent with the IASB framework and the "grandfather" option is elected, companies then should state that their accounting policies are in accordance with IFRS <u>except for</u> accounting for exploration and evaluation assets which are in accordance with the relevant national standard.

### 3. Cash generating units for exploration and evaluation assets (CGU – EEA)

Not all exploration and evaluation assets form part of a producing CGU-EEA and therefore do not have any cash flows from which to assess recoverability. Under the proposed CGU-EEA methodology such assets would be written off if they displayed any indicators of impairment. We believe that an expected monetary value (EMV) methodology is a more appropriate method to assess recoverability of exploration and evaluation assets.

Assets whose EMV exceeds their carrying value should continue to be carried forward. If an asset's carrying value exceeds its EMV, the unrecoverable portion of the carrying value should be transferred to the respective depletion pool to be amortised (in cash generating units for exploration and evaluation assets where production has commenced) or be written down to its EMV (recoverable amount) if the asset is in an area where there is no production. We suggest IASB ED6 specify the accounting treatments to be followed in these instances, regardless of the recoverability method adopted.

As the proposed amendments to IAS16 do not address amortisation, it is not clear whether entities are to amortise exploration and evaluation assets on a CGU or CGU-EEA basis, or whether entities are to amortise these assets under the requirements of IAS16 which only refers to depreciation by single assets and has no provision for the accumulation and amortisation of costs on a cash-generating unit or any other basis. To be consistent with the concept of CGU-EEA, IASB ED6 should clarify that all exploration and evaluation assets within a CGU-EEA should be amortised on a unit-of-production basis as the reserves within the CGU-EEA are produced.

### 4. Identifying exploration and evaluation assets that may be impaired.

The proposed indicators of impairment for exploration and evaluation assets are appropriate.

### 5. Disclosure

The proposed disclosure is appropriate.

Yours faithfully

PC Wasow
**Chief Financial Officer**

Note: Santos Ltd is an Australian publicly listed oil and gas company with assets totalling A$5.2 billion.