WOODSIDE

16 April 2004

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

Dear Mr Fleming

ED 6 Exploration for and Evaluation of Mineral Resources

Woodside is pleased to provide comment on ED 6. Our comments on the IASB questions are attached.

Woodside believes that the minerals business is a significant worldwide industry with specific issues that warrant addressing in a dedicated, integrated accounting standard. ED 6 as proposed gives only limited recognition to some specific issues within the exploration and evaluation component of the industry in the form of grandfathering expenditure policies. This is however effectively totally negated by linking the requirements of IAS 36 in such a manner that can only lead to the inability to carry exploration and evaluation assets forward other than in the case of discovery of commercial resources. This is the successful efforts principle.

A fully integrated standard would give recognition to the most significant issue for the minerals industry being reserves recognition and measurement and the value creation cycle that exists in the industry. Whilst not advocating that the IASB issue technical guidance on reserves recognition or measurement techniques, appropriate consideration should be made of the industry principles.

We believe that the development of a comprehensive standard should be a high priority. This is of particular importance in Australia's case because the extractive industries constitute a significant part of the Australian economy. In this regard we are concerned that limited work appears to have been undertaken in advancing a comprehensive standard since the IASC issued an Issues Paper 'Extractive Industries' in 2000.

Yours sincerely

Mike G Williams
Corporate Accounting Manager

Woodside Comments on ED 6 Exploration for and Evaluation of Mineral Resources IASB Questions

General Comments

The amendments to IAS 38 para. 1 (d) adds in the clarifying words of "non-regenerative...". Differentiation is required from the agriculture standard, but the concepts of accounting for exploration and evaluation can and should be applied to the 'upstream' components of geothermal businesses. The geothermal industry is involved in identifying, discovering and evaluating the existence of a viable source of geothermal energy. A literal interpretation may lead to the incorrect conclusion that the geothermal industry is regenerative and therefore conclude that accounting for exploration and evaluation expenditure is not appropriate.

Specific Comments

1. Definition and Additional Guidance

Because of the different nature of exploration and evaluation activities, Woodside suggests that the terms be defined separately. AASB 1022 'Accounting for the Extractive Industries' contains separate definitions of these terms. We believe that guidance is required to enable companies to identify when the exploration and evaluation phase is complete and the development stage commences. Such guidance will clarify the stage at which other IASB Standards come into effect and when a different form of impairment testing is appropriate.

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.

2. Method of Accounting for exploration for and evaluation of mineral resources

The proposals are acceptable in the context of being a 'stop-gap' until the completion of a comprehensive project and to enable companies to achieve compliance with IASB Standards. However, while this approach to grandfather existing treatments is retained, comparability of financial statements will not be achieved.

Because the proposals 'grandfather' existing requirements and the extensive experience of applying AASB 1022 in respect of exploration and evaluation expenditures it is unlikely that the proposed Standard will have significant impact on this aspect of Australian practice. However, the proposals do not effectively address those circumstances where, on first-time application of IASB Standards, a company chooses to adopt a 'new' accounting policy as permitted under paragraph 11.

3. Cash generating units for exploration and evaluation assets AND
4. Identifying exploration and evaluation assets that may be impaired.

There seems to be no recognition of the fundamental premise of the exploration and evaluation (E&E) business cycle which is the creation of value through the management of risk or uncertainty. Value creation is achieved through the refinement of opportunities, leads to prospects, to targets, to resource and eventually production.

The impairment testing regime in ED 6 is more stringent than that applying in AASB 1022 'Accounting in the Extractive Industries'. This change in the requirements may have a significant impact on those companies with significant activities in exploration projects, particularly those that have not reached a stage which permits a reasonable assessment of its success or otherwise.

The main impact occurs when the impairment process is applied. Under the IAS 36 approach the whole premise of the tests is that there is a discrete set of cash-flows (value in use) that attach to a given E&E 'asset'. This is essentially a single case deterministic value assessment. However, the nature of the E&E business requires a more probabilistic/risk weighted/portfolio approach. We believe that an expected monetary value (EMV) methodology is a more appropriate method to assess recoverability of exploration and evaluation assets and is already commonly used in the oil and gas industry world wide.

Many accounting measurement matters are now accepting or requiring the use of valuation methods that address volatility/risk of outcome such as share based remuneration and involve the use of estimation models such as Black-Scholes. The accounting standards for exploration and evaluation expenditure should enable the same concepts as a valid measurement tool.

Other measures of value have inherent weaknesses that make relying upon them inappropriate. Fair value assumes a liquid market of similar or homogeneous assets. Whilst oil and gas as products may be a commodity, each field has significant differentiating factors that make a blanket market based fair value approach not viable.

The definition of a cash-generating unit for E&E assets is written as if E&E assets are like corporate assets and must be carried by the surplus of current income producing assets. Given that these assets can not be larger than a segment, even mature companies will have E&E assets in segments where there is no current production. It is important that there is sufficient flexibility in the tests for E&E assets to be evaluated on their own merits.

As the proposed amendments to IAS 16 do not address amortisation, it is not clear whether entities are to amortise exploration and evaluation assets on a CGU or CGU – E&E asset basis, or whether entities are to amortise these assets under the requirements of IAS 16. IAS 16 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 – E&E asset, ED 6 should clarify that all exploration and evaluation assets within a CGU – E&E asset should be amortised on a unit-of-production basis as the reserves within the CGU – E&E asset are produced.

5. Disclosure

Woodside considers that the proposed disclosures are appropriate.