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**Response from UNECE Group of Experts to the IASB Extractive Activities Research
Request for Information on Measurement of Reserve Volumes and Values
dated 6 January 2006**

Dear Mr. Brady

In your message of 6 January 2006 addressed to Mr. Sigurd Heiberg, Chairperson of the UNECE Group of Experts on the Harmonization of Fossil Energy and Mineral Resources, a response was requested on two questionnaires, one for preparers and one for users of financial information. Members of the Extended Bureau of the Group of Experts and certain Group members specifically concerned with financial reporting have discussed the questionnaires and found it appropriate to respond in three ways.

Firstly, there is broad consensus on the overriding importance of there being only one set of standards for the global capital markets. It has been recommended that the United Nations make this comment. Secondly, the views expressed in this note reflect a strong consensus of the discussions held on the central theme of the questionnaires and are provided as a joint response. Thirdly, members hold views on the detail of the questions asked, many of which may be in agreement. We are, however led to believe that the IASB Research Project would prefer individual responses from experts with the added granularity that this permits, rather than a joint view. We are therefore not submitting a joint response to the questions, but are encouraging the experts concerned to provide comments individually.

The prospect of recognising reserves and resources at fair value in the balance sheet raises a number of significant issues.

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It is commonly accepted that because the cost of finding and exploiting mineral resources bears no resemblance to the value of the resources controlled by a reporting entity, financial statements based on historical costs have little value to users of financial statements who are seeking to establish the value of companies. In principle we believe that financial reporting should move towards being a better predictor of value and that for extractive activities the recognition and measurement at fair value of reserves and resources on companies' balance sheets could be beneficial in this regard.

However, the measurement of commercial reserve quantities and values is a highly subjective process and the resulting outcomes have a high degree of inherent imprecision and would, because of their nature, result in a high degree of variability between estimates made by equally qualified valuers.

There are valuation techniques available for reserves and resources and valuations of mineral resources are routinely undertaken for business, accounting (for impairment testing and business combinations for example) and disclosure purposes. There are, however few sources of data for market transactions in comparable assets which is a key input to valuation and, even if there were, drawing comparisons between different mineral resources is more subjective than in many other situations. Valuations of mineral resources are therefore often viewed as (even) more subjective than is the case for many other types of assets. In this context we would refer you to the Guidance Note "Valuation of Properties in the Extractive Industries" issued by the International Valuation Standards Committee.

The question is whether or not such an approach would be sufficiently reliable for use in financial statements.

In our view, in the context of the state of development of financial reporting generally, it would be inappropriate at present to recognise reserves and resources on companies' balance sheets at fair value.

We would not be averse to a move in this direction in the longer term should evidence emerge that (1) users of financial statements come to understand and accept the very different nature of financial information based on fair values for reserves and resources and/or (2) valuations of reserves and resources become more comparable and consistent.

We therefore advocate that the IASB seek to establish (in conjunction with the US FASB) robust standards for historical cost reporting for extractive activities. This should allow users of financial statements a clear view of the cost of finding and developing the reserves and resources to which the reporting entity has access as well as the cost of production. Given the array of fiscal and contractual arrangements prevalent in the industries as well as the wide range of costs and political risks to which reserves and resources are exposed, we would anticipate a need for significantly greater and more granular disclosure than is currently required.

In this context we do support the concept of mandating additional disclosure of reserves and resources data by companies involved significantly in extractive activities, at such a time as comparable measurement of data can be ensured. This assurance can most fully be gained through the use of a unified standard. This should include both quantity and value based disclosures.

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We believe that quantity disclosures are critically dependent on adopting one common standard for classifying and defining resources and reserve. We have taken steps to merge the efforts of AAPG, CRIRSCO, SPE, UNECE Group of experts and WPC into one process in order to achieve the technical quality, legitimacy and long-term reliability that is required. The current work of the Group of Experts involving the technical expertise of CRIRSCO and the SPE is operationalising the classification in a manner which should provide detailed guidance to those undertaking the estimation of reserves and resources quantities which will enhance comparability. We believe that this disclosure needs to be disaggregated to an appropriate extent to allow users to appreciate the different costs inherent in developing and extracting the resources and the different fiscal/commercial arrangements under which the resources are held.

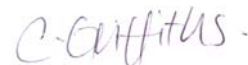
In terms of the disclosure of the value of reserves and resources, we believe that it should be possible to disclose estimates of ranges of fair values (with sufficiently detailed assumptions and sensitivities) for this information to be of significant benefit to users. Again there would need to be a reasonable degree of desegregation for this to be of real use and any mandated disclosure will need to be balanced against commercial confidentiality. In order to aid comparability it may be appropriate to include some form of standardised “valuation” as part of the mandated disclosures. We believe however that a standardised measure in isolation can be misleading.

We appreciate the opportunity to comment and look forward to further dialogue with the IASB on harmonization of global standards for reporting energy and mineral reserves and resources of energy. Please feel free to contact either Charlotte Griffiths or Sigurd Heiberg if you have questions or would like additional clarification (for Ms. Charlotte Griffiths on tel: +41 22 917 1988 or charlotte.griffiths@unece.org and for Mr. Sigurd Heiberg on tel: +47 519-97892 or shei@statoil.com).

Yours sincerely



Sigurd Heiberg, Chairperson



Charlotte Griffiths, Secretary

Group of Experts the Harmonization of Fossil Energy and Mineral Resources
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