

15th Annual Session, Committee on Sustainable Energy

Financial Reporting Needs: Serving the Global
Capital Market
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Quality In Everything We Do

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How does a company manage and monitor its performance?

- They set budgets and targets
 - Financial
 - Operational
 - Health and safety
- Have specific performance measures
- Review performance against these targets
- Monitor and manage key business risks
- Raise finance (debt and equity)
- Report to investors, analysts and other stakeholders

How does an investor obtain information on which to make investment decisions?

- Financial statements, interim results, prospectuses
- Analysts reports
- Management statements, press releases, web sites
- Quality of management and overall reputation
- Comparable company and sector issues
- Long term forecasts and projections
- Company performance measures
- Market protection and regulation

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The added complexity for resource companies

- Accounting is historic cost-based (in the main)
- Accounts do not reflect the value of the underlying reserves and resources
- Balance sheet value based on any or all of:
 - Historic cost of exploration and development
 - Historic cost of licence acquisition
 - Fair value at the time of acquisition of exploration and producing interests
 - Revaluation of oil and gas interests
 - Reassessment for impairment

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Other disclosures which depend on reserve definitions

- Amortisation
- Impairment
- Decommissioning provisions
- Standardised measure of cash flow
- Other performance measures

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Net assets and market capitalisation

	Net Assets 30 September 2006 \$m	Market Capitalisation 23 November 2006 \$m
BP	85,070	214,673*
Shell	110,291	227,337*
Exxon	116,593	425,247

Sources: Market Capitalisation – Thomson Datastream, Net Assets – Company reports

* Converted to US dollars at the rate of 1 GBP = 1.91515 USD

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Story so far

- No common approach for oil and gas accounting
- No consistency in financial reporting
- No common disclosure for reserves and resources

BUT

- Resource measurement and disclosure vital for understanding a company's performance and value
- The Capital Markets want consistent, comparable and reliable financial and volume disclosure

The reaction to the Shell situation

- Compliance with SEC rules or not?
- Are the SEC rules out of date or even irrelevant?
- Why isn't there one consistent approach to reserve disclosure?
- Estimation – probabilistic or deterministic?
- Canada - reserve reporting and verification
- Should reserve verification be part of the financial audit?
- European Union – expert report to support equity fund raising

Independent external verification

Comparison of oil and gas reserves reporting in 2002 and 2005 by 15 companies:

- In 2005 11 companies used independent external experts to verify some or all of their reserves estimates compared with eight that stated that they had independent verification in 2002
- All the majors included in the study did not make any reference to the use of external, independent reserves verification in 2002. The majors rely on internal experts, review committees, review by a different business unit and senior level sign off
- Two companies indicated that they had made greater use of external, independent reserves verification organisations in 2005
- During 2004 four companies engaged external experts to review their reserves reporting procedures and confirm that they were SEC compliant

Standardising guidelines

Of our 15 sample companies, the following guidelines / regulations were used to report reserves:

	2002	2005
• SEC:	6	7
• SORP:	3	2
• SPE:	1	2
• SORP & SEC:	0	1
• Canadian Regulatory Authorities:	1	1
• Not stated:	4	2

Types of reserves reported

In 2005, from our sample of 15 companies, types of reserves estimates in Annual Reports were as follows:

- Nine companies reported 'Proved Developed and Undeveloped' reserves
- Two companies reported 'Proved Developed' reserves
- Four companies reported 'Proved' reserves
- Three companies reported 'Probable' reserves

Reserves Disclosure for BP

	2002	2005		
Reporting guidelines used	SEC	SEC & SORP		
Categories of reserves reported	Proved Developed and Undeveloped	Crude Oil	SEC	SORP
		Proved Developed	3,201	3,060
		Proved Undeveloped	3,159	4,101
		Total	6,360	7,161
		(million barrels)		
Pricing	Not stated	Long-term planning prices (\$25 a bbl) under UK SORP. Year end prices (\$58.21 a bbl) under SEC		
Independent Verification	Not stated	Not stated		

The IASB answer

- IASB has established a group to develop a standard
- Discussion paper with IASB preliminary views due 2007

Active Project deliverables:

- Exposure Draft
- International Financial Reporting Standard
 - timeframe uncertain and is dependent on:
 - outcomes of Discussion Paper
 - IASB agenda

IASB Key Issues

- How should reserves/resources be defined?
- Can and should reserves/resources be recognised as assets at their fair values?
- If not, should pre-development costs be capitalised or expensed?
- Should reserves/resources information be disclosed? If so, what information?

Current IASB Thinking

- Only a revised form of successful efforts will survive (no full costs)
- Want one definition for reserves and resources ie commercially recoverable reserves
- Would like it to be the same as (consistent with) mining definitions
- Value based-accounts are being considered
- Value and volume-based disclosures being considered for usefulness and reliability
- Agree that the use of year-end prices for estimates could be misleading (but this is not the SEC view)

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Current IASB Thinking

- Asked CRIRSCO (mining) and SPE (oil & gas) to identify opportunities for converging elements of their definitions that may not need to be different between industries or with accounting principles.
- Will then select the preferred reserves/resources definitions on the basis of which provides the most useful information to users.

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Conclusion

- There are too many different approaches and inconsistencies
- There has been limited response by the market to the Shell scenario and current oil prices are masking the issue
- The IASB may have the financial answer but recognise it is incomplete without a reserve and resource answer
- The approval and adoption of the consistent framework of the UNFC is a major step forward

BUT

- It needs to be recognised and implemented as widely as possible to gain acceptance by the regulators

AND BE

- Comparable, consistent, relevant, realistic, understandable

RESULT

- Lower cost of capital

Thank you!

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