Agenda

► Developments in financial reporting
► Recent considerations for financial reporting
  ► Points of interest from the 2015 financial reporting cycle
Developments in financial reporting

► Limited developments with direct reserve & resource linkage

► IASB (IFRS)
  ► 2004- International project team established to explore a possible approach for a future IFRS for the accounting for extractive industries
  ► 2010- Discussion paper issued (including definition of reserves) and 140+ comments received
  ► Project on hold.....

► SEC

► Payments to Governments
Backdrop to 2015 reporting cycle - Brent.....

Source: Bloomberg
......and metals prices

Source: Bloomberg
Environmental implications for R&R and financial reporting

INVESTMENT DECISIONS/ PORTFOLIO MANAGEMENT/ STRATEGY

- Cash management
- Investment prioritisation - exploration/ development
- Project redefinition/ phasing/ rationalisation
- Expectations of future costs
- Access to capital
- Partner alignment
- Spend commitments
- M&A activity

Commodity prices
- Short term
- Long term
- R&R

Costs
- Opex
- Capex

Other

Impairment / recoverability
- Decommissioning / rehabilitation
- Estimation of reserves and resources
- Covenant compliance
- Going concern
- Restructuring provisions

Funding
- Interplay of considerations
- A moving target for financial reporting?
Environmental implications for R&R and financial reporting

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INTRA-PERIOD CONSIDERATIONS

- Impairment / recoverability
- Estimation of reserves and resources
- Decommissioning / rehabilitation
- DD&A
- Interplay of considerations
- A moving target for financial reporting?

Future considerations
- Fair, balanced, understandable disclosures
- Restructuring provisions
- Going concern
- Country risk & fiscal exposures
- Covenant compliance
- Estimation of reserves and resources
- Decommissioning / rehabilitation
- DD&A

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Implications for R&R stakeholders?

- Increased disparity/ tension between stakeholders?
  - Prices/ costs
- Understanding of reserves and related value disclosures (eg SMOG) and in period movements?
- Disclosure and transparency- other communications?
Implications for reserve & resource estimation

► How often should reserve and resource estimates be updated?
  ► Eg SEC oil and gas reserves- Falling trailing reference price as 2015 progressed- eg SEC Brent ($/bbl)

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► DD&A considerations- SEC: “Unit-of-production amortization rates shall be revised whenever there is an indication of the need for revision but at least once a year”

► Ongoing evolution of activity sets and cost estimates- a moving target?

► Impairment- increased use of FVLCD to reflect full value of portfolio

► Accounting for assets where reserves are significantly diminished for reserve reporting purposes but production is expected to continue
  ► Alternative approaches to DD&A?
Use of the work of specialists

► Variety in practice in the extent of 3rd party estimation/review
► Internal estimation and review by specialists common practice for majors
► Common to use the work of these specialists in assessing reserves and resources as an input to financial reporting
► PCAOB- Staff Consultation Paper — The Auditor’s Use of the Work of Specialists
  ► evidence provided by a company’s specialist would be evaluated similarly to any other evidence provided by the company to the auditor.

Re retaining an independent third party to prepare, or conduct a reserves audit of, the company’s reserves estimates “Most commenters urged the Commission not to adopt such a requirement….. We agree with these commenters and are not adopting a requirement that an independent third party prepare, or conduct a reserves audit of, the company’s reserves estimates.” (SEC- Modernisation of oil and gas reporting)
Thank you