



European Financial Reporting Advisory Group
Association internationale sans but lucratif
35 Square de Meeûs
B-1000 Brussels

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Dear Sirs,

As a metals and mining company only recently listed on the LSE (December 2007) this is the first occasion when we have felt the need and been able to free up resources to take part in the comment stage of the standard setting process. We are very concerned about the exposure draft on extractive industries from a principles, scope and content perspective. To put our comments in context please note that we have had an internal process to get feedback from finance and operational staff at our mining operations as well as mining and financial technical staff. Also we have discussed our thoughts with certain investor representatives, our current competent persons (for our reserve statements), our auditors and also certain members of our peer group. Although we recognise some positive items in the exposure draft, overall our opinion is not favourable and we would encourage the members of EFRAG not to recommend adoption should the standard be issued in its current format.

We are not convinced that there is a real need for a new model for the accounting in this area. This topic has been on the agenda of the current IASB throughout its tenure and though we recognise there are some theoretical flaws in the current position we are not experiencing any significant questions or challenge from the investors or the analysts or users of our accounts. The area where there has been some questions in our industry is on production stripping which is being considered by IFRIC and isn't really the subject of the exposure draft.

If, however, you accept the need for a new model then we struggle with the need to have separate standards for a particular segment of industry. This seems to be much more of a FASB way of proceeding than the IASB's approach to principles based IFRS. Is this being pushed through too quickly in the desire for convergence? We believe that a more appropriate way forward would be to expand or clarify the requirements under IAS16 or IAS38 for example.

If you do accept the need to have an industry specific standard then we do not believe that putting oil & gas and mining into the same bucket is correct. The IASB appears to believe that there are sufficient similarities in business activities and that the risks and uncertainties in the two industries are similar. Those within the two industries do not share this view and more importantly the users of accounts and investors don't look for comparability across these particular industries (more than they look for IFRS to give them general comparability

in financial statements). Areas of difference relate to the scale of areas of interest, the capitalisation hurdle and consequent view of risk, the need/desire for full costs information and the percentage of successful efforts. The current framework for reserves reporting is also quite different between the two industries (most major players include reserve statements in their annual reports).

Moving onto the detail in the exposure draft our first concern is the timing of the recognition of an asset. Whilst we accept the Board's view that one should use the framework to decide if you have an asset we do not believe that booking an asset as soon as you have the right to explore etc meets the other element of the test i.e. that there is a future benefit that will result in future cash inflows. That may be truer in the oil & gas industry due to the significantly higher capital threshold requirements but in mining the future benefits are often not sufficiently proven at this time. Whilst the hope is that this will be the case what you really have is sufficient information to give you enough probability of it being so such that you are willing to invest.

In the early stages of exploration properties there is not enough data to know the recoverable amount from that investment. There are practical problems of recognising and tracking costs that apply to units of account as the boundaries of that unit change over time. We are not certain that there is sufficient clarity as to how the unit of account process will work in practice. These could require costly system changes to control and accurately report. We believe that it is more prudent to write off such items to expense until such time as the scope of the deposit and likely future cash flows are more determinable. It seems to us that the impairment approach envisaged in the exposure draft almost proves that the asset is booked at too early a stage.

When we look at the cost data to be provided we are not certain that measurement at historic cost provides meaningful information to users of the accounts as it is no indication of likely future cash flows. Our research has confirmed that fair values are also not meaningful, not understood by users and not desired by analysts. Therefore historic cost is the better measure so we agree with the exposure draft on this point as at least it gives some indication of the stewardship of the cash currently at the enterprises disposal. As to the amount of data to be disclosed, we feel that it strays into commercially sensitive areas and will flood the users with a mass of data that will not really be useable by them.

The concept of production revenues does not fit well with a fully integrated business such as ours and many of the other larger metals and mining companies. If accounts are to reflect the economic business model of an entity then we need to be able to view and report on our businesses as an integrated unit. It is part of the investment choice that has been made by investors and they should see the outcome of this way of managing versus having invested in independent miners. We mine minerals, transport using our own entity, process and smelt using our own power and sell via our own marketing and transport operations. Production revenues are therefore an internal 'price' only with change in inventory impacting the period cost. We could not see how the revenue disclosures would be appropriate for our type of business. We have other examples of where current standards cause us results which do not reflect our business model (for example impairment reviews currently mean that we have



to regard production units separately whereas our investment decision and processes were based on an integrated model) so we are aware of the inconsistencies that such approaches cause.

Looking at the disclosures on reserves the aim, in our view, should be to enable users to assess the value of reserves and not to recreate all the calculations that management performs. Giving all the assumptions used does not really help users as they do not have understanding of the linkages between the pieces of data. More data could therefore be bewildering and lead to erroneous calculations rather than be helpful to users. We are concerned about the disclosures on the current value of reserves as to the availability and reliability of data. Mines in our business have lives of up to 40 years. Forward looking prices to cover this sort of time span most especially in commodities not listed on indices such as the LME is an issue. Short term blips such as in the recent recession may cause some swings in calculation whereas in practice when prices get too low miners may slow down or stop production thus extending the life of the mine and maintaining the reserve value. Providing sensitivity analysis is a good aspiration but it is very difficult to provide meaningful data. We are concerned that the valuation and sensitivity analysis data will be very difficult and expensive to prepare. In particular we do not believe that the cash flow data is required by investors or is useful and it would be very costly and difficult to isolate. Perhaps it would be better if most of the reserve disclosures were best practice advice rather than formalised in the standard. Users need to be able to see the significant issues for the particular company. Providing a flood of information on all reserves and resources could have the opposite effect as the significant items get lost in the detail.

It is in the company's interest to present meaningful and full reserve disclosures as they want investors and potential investors to see the value inherent in their business. Investors want competent persons to sign off to ensure some comparability and robustness in the data. Most major companies already do this for their major reserves. It is an expensive and time consuming process so companies may not do this for smaller deposits or have all reserves certified post acquisitions and in the early stages of exploration. This is especially true where licence renewals are relatively near term and the increase in perceived company value from having those reserves endorsed would not match the cost/time benefit criteria of having them endorsed. Making the reserves and resources data mandatory doesn't take these factors into consideration. We do support the exposure draft's position of having a CRISCO basis for reserve statements. However this is only useful if this is worldwide. We have statements prepared under the JORC code but for government purposes in Kazakhstan have to prepare mining plans under CIS guidelines. This is often the case in emerging markets and can create a costly exercise for managements if the accounting standard method is mandatory too. We would welcome guidance and disclosure requirements in a standard if we could be subject to one set of rules.

Finally on reserves we believe that the information should be outside of the audited financial statements as it is now. Our auditors review the competent person's statements for consistency with the rest of the annual report but they do not have the skills base or the time to do anything further nor is it necessary. The investors have the comfort of one competent person's sign off which should be enough. If the auditors also have to opine then where

does a company turn to if the competent person and the auditor disagree? We believe that if the reserves information was included in the financial statements it would be very costly and could jeopardise our ability to report in time unless the latter was dealt with by allowing a once a year review ahead of the year end (allowing time for evaluation). We are concerned that adding the cost disclosures into the reserves statements will in any case make the work of the auditors more complex and costly and delay our annual report preparation process.

On PWYP we do not think that the audited financial statements are the correct place for this (some would say) politically motivated disclosure. It feels much like the information on creditor days which UK companies have to include in the Directors Report section of the Annual Report. That is, it is a matter of corporate governance and for UK companies the probable underlying concerns about behaviours are covered in bribery and corruption legislation and there is no need for the 'accounts' to police this area.

Definitions could be difficult as to what a Government is especially in the areas where one imagines the issues are. Would it include family members of government officials, organisations sponsored by governments etc? How do you police this changing environment as a company and would it apply to all countries/regions or only specified ones? Auditing this information is likely to be complex and therefore costly. We do not believe that the practicalities of this issue have been fully considered in the exposure draft. Companies' systems are not built to capture information on this factor per se. It would require system changes and tracking in sub ledgers (especially if to be auditable) which would take time and money. Why should the company's shareholders bear this cost?

In isolation what does it tell users of the accounts? A high number isn't necessarily bad. The accounts are for stakeholders not the general public or political/activist/lobbying groups per se.

If it is decided to be a requirement it should apply to all entities and not just extractive industries and therefore it should not be in this exposure draft but in a wider standard.

In conclusion, this exposure draft is very long and, we feel, raises more issues than it potentially solves.

Yours sincerely,

Teresa Jordan
Group Financial Controller