

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

UNITED KINGDOM

Dear Sirs,

**Draft IFRIC Interpretation DI/2010/1
Stripping Costs in the Production Phase of a Surface Mine**

Vattenfall AB would like to express its thanks for the opportunity to provide comments on the IFRIC Interpretation DI/2010/1 “Stripping Costs in the Production Phase of a Surface Mine”.

Vattenfall is Europe's fifth largest producer of electricity and the largest producer of heat. We currently have operations in Sweden, Denmark, Finland, Germany, Poland, the United Kingdom, the Netherlands, and Belgium. In electricity and heat, Vattenfall is active in production, distribution and sales. Vattenfall is also engaged in production and sales of gas, energy trading, gas extraction and lignite mining.

General Comments on the Draft IFRIC Interpretation DI/2010/1

Due to the scope of the Interpretation in accordance with Paragraph 5, the extraction of lignite from (open-cast) surface mines, which is a part of our business operations, is also affected by the regulations contained in the proposed Interpretation. Before we deal with the individual issues in the Interpretation, we would like to voice some fundamental doubts we have both with regard to the purpose of the draft Interpretation as well as with respect to its actual content:

- The fundamental question arises whether a separate Interpretation is even required for the accounting treatment issue as described. Ultimately the outcome can also be based on general principles such as the matching principle and the criteria for the recognition of assets. This becomes clear in Paragraph 7 of the draft where the general definition of an asset is applied. However to the extent that in practice different approaches to the treatment of so-called stripping costs (see BC3) really

do occur, we support the intention of the draft to ensure there is a uniform accounting method.

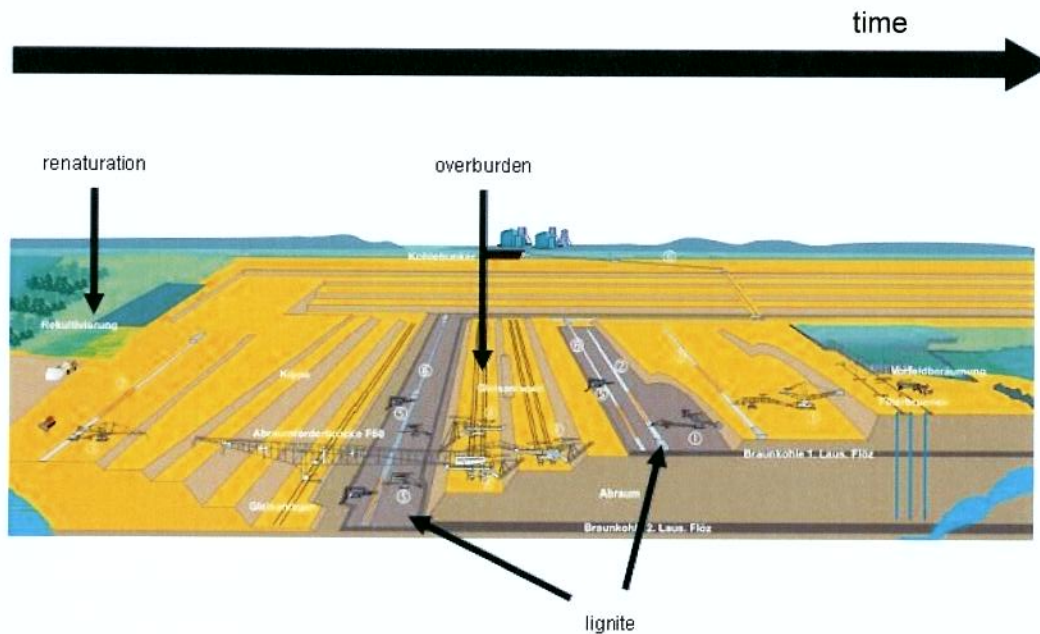
- Our considerations with respect to the content of the draft relate first and foremost to the features of a so-called stripping campaign, which in our opinion are not sufficiently unequivocal in order to distinguish it from the so-called routine waste clearing activities. We question whether it is possible at all and helpful to make such a distinction or indeed whether as a result of this even more issues then arise.
- In order to avoid any misunderstandings, we suggest that reference is not only made to "ore and/or ore body" in the Interpretation but also to natural resources and/or minerals in general.

Question 1 – Definition of a stripping campaign

The proposed Interpretation defines a stripping campaign as a systematic process undertaken to gain access to a specific section of the ore body, which is a more aggressive process than routine waste clearing activities. The stripping campaign is planned in advance and forms part of the mine plan. It will have a defined start date and it will end when the entity has completed the waste removal activity necessary to access the ore to which the campaign is associated.

Do you agree that the proposed definition satisfactorily distinguishes between a stripping campaign and routine waste clearing activities? If not, why?

Fundamentally we would welcome the recognition to be based more on principles as it is difficult to lay down a generally applicable definition of a stripping campaign. Ultimately each and every (open-cast) surface mine is not set up in the manner provided in the illustrative examples in the Interpretation. With an (open-cast) surface mine for the extraction of lignite, these illustrative examples for instance are not very helpful. By way of example, the situation with Vattenfall's (open-cast) surface lignite mining operation is presented in the following chart:



As can be seen here, the lignite deposits extend across almost the complete area in an (open-cast) surface lignite mining operation. Hence it is difficult to identify a "specific section" as is envisaged in the draft Interpretation.

As the routine waste clearing activities term is not defined anywhere else in the draft, it is implicitly assumed that they concern all costs which do not fulfil the criteria of a stripping campaign. However on closer examination of the proposed features of a stripping campaign, the difficulties in distinguishing them from routine stripping costs become apparent. As per our understanding of the definition of a stripping campaign in Paragraph 4, the following preconditions must be present:

1. *"a specific section of the ore body"*

This criterion implies that an essential precondition for the existence of a stripping campaign is to have a specific, separately distinguished section of the mine. The question then arises, based on which criteria should this separate distinction occur when resource deposits are identified throughout the complete area of the mine. This becomes clear with the extraction of lignite as the coal seams extend across almost the complete (open-cast) surface mine here.

2. *"a more aggressive process than routine waste clearing activities"*

We do not feel it makes sense with an (open-cast) mining operation to distinguish between aggressive and less aggressive activities as it is not clear where the line should be drawn here. We assume this aspect is understood to mean blasting activities for instance. However in (open-cast) mining operations, the overburden is mainly removed by means of digging it out. It would be useful to focus on whether an activity occurs frequently or only rarely and/or is undertaken at longer intervals.

Based on the wording in BC14, a stripping campaign could also mean the initial opening up/groundbreaking work on a new (open-cast) surface mine ("(...) to create a new, satellite pit."). However in our opinion this concerns the so-called development costs.

3. *"The stripping campaign is planned in advance and forms part of the mine plan"*

As a rule there is a mine (extraction) plan for every extraction process in the mine. This contains all activities related to the extraction process, i.e. both those which would be regarded as a stripping campaign as well as those which represent the routine waste activities in the meaning of the Interpretation. Hence the existence of such a plan is not a suitable distinguishing feature.

4. *"It will have a defined start date and it will end when the entity has completed the waste removal activity..."*

Likewise this aspect could be fulfilled by the routine stripping costs and thus it is not sufficiently precise as a distinguishing criterion.

The intention behind our considerations here is that distinguishing between a stripping campaign and routine waste clearing activities only raises additional questions rather than clarifying existing issues. As it is very difficult to have a generally applicable distinction between these terms for (open-cast) surface mining operations, we would advocate dropping the idea of a stripping campaign in the Interpretation.

Instead the intention of the Interpretation should be to express that all costs which lead to improved access to the resources are capitalised as assets. To the extent that the usage relates to a time frame of more than one year, it concerns a component of an asset in the meaning of IAS 16 and/or IAS 38. By contrast, if the asset is used in the normal operating cycle of the enterprise, it concerns an inventory item in the meaning of IAS 2. This is the case when for instance the resources which are uncovered through the removal of overburden can be extracted within the normal operating cycle.

The assets are then, in line with the matching principle, offset as expenses when the corresponding revenue from the extraction activities is recorded.

Likewise we do not regard the example in the illustrative examples to be suitable for clearly resolving the existing applicability issues:

In reporting period 1, the areas A and C also fulfil the criteria for a stripping campaign because they

1. relate to a specific area of the ore body
2. expensive extraction measures can be required
3. the extraction of this area is planned in advance and is part of the mine plan
4. they have a defined start and end date.

Hence although the criteria for a stripping campaign are fulfilled with areas A and C, in IE4 the activity in area A is still termed a routine waste clearing activity. This contradiction continues in reporting period 2: As per IE8 the clearing work in C1 should be regarded as a routine waste clearing activity although, just like in area A, the criteria for a stripping campaign in accordance with Paragraph 4 are fulfilled.

If the intention is to avoid having this conclusion, then we would advocate removing the illustrative examples from the Interpretation.

Question 2 – Allocation to the specific section of the ore body

The proposed Interpretation specifies that the accumulated costs recognised as a stripping campaign component shall be depreciated or amortised in a rational and systematic manner, over the specific section of the ore body that becomes directly accessible as a result of the stripping campaign. The units of production method is applied unless another method is more appropriate.

- (a) *Do you agree with the proposal to require the stripping campaign component to be depreciated or amortised over the specific section of the ore body that becomes accessible as a result of the stripping campaign? If not, why?*
- (b) *Do you agree with the proposal to require the units of production method for depreciation or amortisation unless another method is more appropriate? If not, why?*

Utilising a consumption-based depreciation or amortisation method in this connection represents a suitable approach.

Question 3 – Disclosures

The proposed Interpretation will require the stripping campaign component to be accounted for as an addition to, or an enhancement of, an existing asset. The stripping campaign component will therefore be required to comply with the disclosure requirements of that existing asset.

Is the requirement to provide disclosures required for the existing asset sufficient? If not, why not, and what additional specific disclosures do you propose and why?

In our opinion the disclosure duties currently in place are sufficient and do not need any additions.

Question 4 – Transition

Entities would be required to apply the proposed Interpretation to production stripping costs incurred on or after the beginning of the earliest comparative period.

(a) Do you agree that this requirement is appropriate? If not, what do you propose, and why?

The proposed Interpretation requires any existing stripping campaign component to be recognised in profit or loss, unless the component can be directly associated with an identifiable section of the ore body. The proposed Interpretation also requires any stripping cost liability balances to be recognised in profit or loss on transition.

(b) Do you agree with the proposed treatment of existing stripping cost balances? If not, what do you propose and why?

We are in agreement with the above proposals.

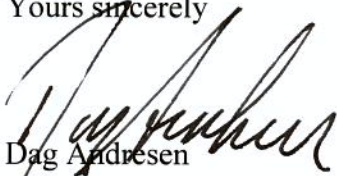
Summary

The purpose of an Interpretation is to resolve existing accounting issues and secure uniform accounting treatment. We do not regard this aim to be fulfilled with regard to the accounting treatment of the so-called stripping costs in the draft. Instead, our considerations presented here should make clear that the Interpretation would only raise new issues. Furthermore, the proposed criteria for a stripping campaign cannot be simply applied to the extraction of lignite in an (open-cast) surface mine.

Hence we propose refraining completely from having such an Interpretation. However should the Committee still be committed to releasing an Interpretation, we suggest drafting a regulation based more on general principles. In our opinion the idea of a stripping campaign is not appropriate.

Stockholm, 16 November 2010

Yours sincerely



Dag Andresen
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and Chief Financial Officer of Vattenfall AB