Agenda

- Recognition of mining assets in Financial Statements
- SMOG – methodology
- SMOG – calculations & comparisons
- SMOG – primary conclusions

Recognition of mining assets in Financial Statements

- Historical cost approach
  - in case of mining assets non consistent valuation dependent on a acquisition method
- Market valuation approach
  - in case of mining assets difficult to apply due to lack of data

Recognition of mining assets in Financial Statements

- Proved reserve quantities
- Capitalised costs relating to exploration and development
- Costs incurred for property acquisition, exploration, and development activities
- Results of operations for mining activities (if these are defined as separate segments)
- A standardized measure of discounted future net cash flows relating to proved oil and gas (US GAAP only)

SMOG - methodology

A methodology prescribed by US GAAP requires Companies to adopt several key assumptions which are listed below :

- a rate and time of reserves depletion is assumed by the reporting company,
- prices applied are year-end prices of oil and gas - future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end,
- costs should be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions,
- a fixed 10% discount rate is applied,
- the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, less the tax basis of the properties involved, should be applied.

SMOG – calculations & comparisons

Company	Year	MV [1]	BV[2]	SMOG[3]	MV-BV	SMOG	P.Y. SMOG[4]
						as % of (MV-BV)	as % of (MV-BV)
	mo USD						
BP	2006	218 192	86 517	90 600	131 675	***69%***	***97%***
BP	2005	221 099	85 147	128 200	135 952	***94%***	***65%***
BP	2004	209 520	85 092	88 500	124 428	***71%***	***65%***
BP	2003	181 958	79 167	80 500	102 791	***78%***	***74%***
BP	2002	151 615	66 636	76 500	84 979	***90%***	***52%***
BP	2001	173 916	62 322	44 500	111 594	***40%***	
BP	2000	172 671	65 554	N/A	N/A	***N/A***	***N/A***

SMOG – calculations & comparisons

Company	Year	Oil and Gas Reserves		Capitalised E&D costs	SMOG	Capitalised costs as % SMOG	SMOG Premium
		Oil (mo barrels)	Natural gas (mo sq ft)	mo USD			over cap. E&D costs
BP	2006	9 781	45 931	60 906	90 600	***67%***	29 694
BP	2005	9 565	48 304	55 977	128 200	***44%***	72 223
BP	2004	9 934	48 507	53 459	88 500	***60%***	35 041
BP	2003	10 081	48 024	50 975	80 500	***63%***	29 525
BP	2002	9 165	48 789	53 125	76 500	***69%***	23 375
BP	2001	8 376	46 175	50 740	44 500	***114%***	- 6 240
BP	2000	7 643	43 918	48 745	N/A	***N/A***	N/A

SMOG – primary conclusions

- Financial reporting of mining companies system lacks clear representation of their mineral assets not only in Poland but even in the leading mining countries
- SMOG, if made more flexible, hence adoptable to changing environment, may be a valuable tool for stakeholders
- There is no obstacle in expanding SMOG use to other minerals