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30 November 2007

The Chairman
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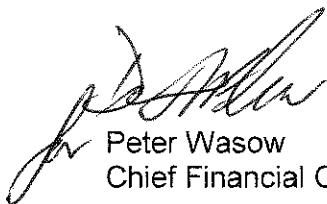
Invitation to Comment on Exposure Draft ED 157 *Joint Arrangements*

Santos is pleased to provide comments on the Australian Accounting Standards Board ("AASB") Exposure Draft ED 157 *Joint Arrangements*, being the Australian equivalent to International Accounting Standards Board Exposure Draft ED 9 *Joint Arrangements*.

Our responses to the specific questions in the invitation to comment are attached.

If you have any questions concerning our comments, please do not hesitate to contact me on 08 8116 5231.

Yours sincerely



Peter Wasow
Chief Financial Officer

Copy to:
International Accounting Standards Board
www.iasb.org

Responses to Invitation to Comment on ED 157 “Joint Arrangements”

Question 1 – Definitions and terminology

1. Do you agree with the proposal to change the way joint arrangements are described? If not, why not?

We do not agree with the current proposals to change the way joint arrangements are described as much of the new terminology used in the exposure draft has not been clearly defined. Of particular concern are the following terms:

Joint Venture

For the term joint venture to only refer to jointly controlled entities goes against commonly used oil and gas industry terminology whereby a joint venture refers to a joint asset, joint operation or a jointly controlled entity. We believe that this will lead to confusion, not only with users of financial reports, but also with preparers in the oil and gas industry, as they will continually need to consider in which context the term joint venture is being used to determine what is actually being described.

Business

We believe the objective of the proposed standard is not clearly defined and references to joint ventures conducting “business” are misguided.

We believe that the objective of the proposed standard should be to establish the accounting requirements for commercial arrangements between parties to jointly share the risks and rewards from the exploitation of an asset/resource/opportunity. Such a commercial arrangement has a finite life and terminates when the asset/resource/opportunity is fully exploited.

Accordingly, these commercial arrangements, whatever their legal or contractual form, differ from businesses in that they lack the goal of regeneration or perpetuation beyond the life of the asset/resource/opportunity being jointly exploited.

Businesses are more commonly conducted through incorporated entities and partnerships to which consolidation or equity accounting principles apply.

Joint arrangements or joint ventures to exploit an asset/resource/opportunity are often conducted through contractual arrangements. Where an incorporated entity is used it is often as a consequence of legal, regulatory or taxation considerations. However, a substance over form approach should be allowed to recognise the underlying nature of the activity.

Shared decision-making

We are concerned that most discussion and analysis of what constitutes “shared decision-making” when considering the question of “joint control” is focussed at too low a level and does not reflect the broader commercial reality of most joint arrangements.

Our concern in this regard flows directly from our view that a joint arrangement is not conducting a business (although some large, long lived activities may superficially appear to be so).

At the outset, the parties to the arrangement agree the commercial purpose and strategic intent of the arrangement. In the case of an oil and gas development, the parties agree a development and marketing plan which optimises the value of the project and proceed on that basis. In our view, this is the relevant decision-making process that reflects joint control. A party that does not agree with the fundamental strategic plan for the project will normally elect to exit the project.

In order to implement the project day-to-day decision-making, the responsibility for preparing detailed plans and executing activities is vested in a project Operator. Important operational decisions may be subject to participant vote with the majority view holding sway. However, this is but a formal mechanism to canvas the views of the venturers. Where the parties have agreed at the outset to be bound by the majority view in regards to these operational decisions this does not detract from the fact that the real exercise of joint control was in establishing by agreement at the outset the common purpose and process for achieving that common purpose.

Accordingly, the substance of joint control is established by the parties entering into the joint arrangement and the fact that a party may have a majority or minority participating interest does not necessarily impact on the consideration of whether joint control exists.

Questions 2 and 3 – Accounting for joint arrangements

2. **Do you agree that a party to a joint arrangement should recognise its contractual rights and obligations relating to the arrangement? If so, do you think that the proposals in the exposure draft are consistent with and meet this objective? If not, why? What would be more appropriate?**

We agree that a party to a joint arrangement should recognise its contractual rights and obligations relating to the arrangement.

We do not agree that the proposals in the exposure draft achieve this objective in relation to joint ventures. The exposure draft emphasises that the form of an arrangement should not be the most significant factor in determining the accounting treatment for a joint arrangement, however the examples all indicate that a jointly controlled entity would be equity accounted and therefore appear to follow form, rather than looking at the substance of the transaction.

3. **Do you agree that proportionate consolidation should be eliminated, bearing in mind that a party would recognise assets, liabilities, income and expenses if it has contractual rights and obligations relating to individual assets and liabilities of a joint arrangement? If not, why?**

No. Proportionate consolidation should be maintained where it reflects the substance of the arrangement. In particular, this is the case for oil and gas joint ventures, and this is reflected in US GAAP where extractive industries are able to use proportionate consolidation.

Questions 4-6 – Disclosure

4. **Do you agree with the disclosures proposed for this draft IFRS? If not, why? Are there any additional disclosures relating to joint arrangements that would be useful for users of financial statements?**

We make the following comments regarding certain of the additional disclosures:

39 (a) We agree that a list and description of interests in significant joint ventures and the proportion of ownership interest held should be disclosed, but this should also be extended to interests in significant joint assets and operations.

39(b) Summarised financial information should only be provided in aggregate and is not necessary for each individually material joint venture.

5. **Do you agree with the proposal to restore to IAS 27 and IAS 28 the requirements to disclose a list and description of significant subsidiaries and associates? If not, why?**

We believe that a list of significant subsidiaries and associates is useful information for users of financial reports, but do not agree that it is necessary to provide a description of each subsidiary and associate.

We agree that there should be consistency in the disclosure requirements for joint ventures that are equity accounted and investments in associates.

6. **Do you agree that it is more useful to users if an entity discloses current and non-current assets and liabilities of associates than it is if the entity discloses total assets and liabilities? If not, why?**

No, we believe that disclosure of total assets and liabilities of associates is sufficient. We cannot see for what purpose a user of a financial report would require assets and liabilities of associates to be classified as current and non-current.

AASB Specific Matters for Comment

- (a) **Any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposal, particularly any issues relating to:**
- (i) **not-for-profit entities;**
 - (ii) **public sector entities;**

The Illustrative Examples prescribe accounting methodology related to farm-ins and unitisation arrangements that is not within the scope of a Joint Arrangements standard and is not consistent with current Australian practice, and in doing so may trigger unintended negative taxation impacts.

- (b) **whether, overall, the proposals would result in financial reports that would be useful to users; and**

As it is currently worded, we do not agree that the proposals would result in financial reports that are useful to users. The disclosures are heavily geared towards joint ventures and require very little disclosure in relation to joint assets and joint operations.

- (c) **whether the proposals are in the best interests of the Australian economy.**

As it is currently worded, we do not agree that the proposals are in the best interests of the Australian economy:

- The elimination of the proportionate consolidation option will put Australian extractive companies at a disadvantage when comparing to their US peers; and
- The Illustrative Examples prescribe accounting methodology related to farm-ins and unitisation arrangements that are not consistent with current Australian practice, and pre-empt accounting methodology that is yet to be determined in an Accounting Standard for the Extractive Industries.