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International Financial Reporting Standards

*Considerations for the
Oil & Gas Industry*

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International Financial Reporting Standards

Considerations for the Oil & Gas Industry

Decibel levels continue to rise on the subject of International Financial Reporting Standards (IFRS), with frequent communications from many sources. As the volume increases, you may find yourself asking: How will IFRS impact my company? What triggering events would compel us to move more quickly to adopt IFRS? What obstacles might stand in our way?

IFRS is inevitable and will be the final destination for public companies in the U.S. and for most companies around the globe. Still unsettled, however, is the pace of the trip. Some companies will perceive benefits in embarking immediately. Others may adopt a more measured approach. Still others may choose to closely examine the roadmap before they take any steps.

Most oil and gas (O&G) companies have significant international operations, multiple regulatory and capital market considerations, complex organizational structures (often including multiple subsidiaries and joint venture relationships), and global competitors who may already be reporting under IFRS. O&G companies in these circumstances may discover compelling reasons to adopt IFRS even before it is mandated.

Of course, like any significant business decision, determining the timing and pace of an IFRS conversion requires an understanding of the potential costs and benefits. Regardless of your ultimate conversion plan, it is crucial to make an informed decision based on a thorough analysis.

Such analysis and planning is crucial, since a successful conversion will not happen overnight. Indeed, companies that have already converted to IFRS have found that the initiative can span several

years, due to the surprisingly wide scope of the effort. A successful IFRS conversion project will involve not only technical accounting and financial reporting, but also issues around internal processes and controls; regulatory, statutory, and management reporting; technology infrastructure; as well as organizational issues, including tax, treasury, legal and contracts, compensation and human resources, and communication.

Suffice to say, conversion involves much more than reshuffling the chart of accounts.

Chart the Course

If you take only one action after reading this document, we suggest it be this: Develop an IFRS implementation roadmap.

To kick off this effort, ask yourself and your team a few preliminary questions to gauge the potential impact of IFRS on your company:

- Have we inventoried our current IFRS reporting requirements, if any?
- How many local generally accepted accounting principles (GAAPs) do we currently report under?
- How many of our business units already prepare IFRS financial statements?
- How might our access to capital be impacted by an IFRS conversion?
- How many of our competitors have converted to IFRS? (See chart, "Competitive Landscape" on page 2.) Is there an expectation that they would switch to IFRS, if given the choice in the U.S.?

Key Impacts of IFRS Implementation

Technical Accounting	Process and Statutory Reporting	Technology Infrastructure	Organizational Issues
<ul style="list-style-type: none"> • Overall approach to IFRS implementation • First time adoption policy considerations, including reporting dates and use of exemptions • Ongoing policy considerations, including alternatives and approach to "principles" 	<ul style="list-style-type: none"> • Internal controls and processes, including documentation and testing • Management and internal reporting packages • Global reporting packages • Statutory reporting, including "opportunities" around IFRS adoption 	<ul style="list-style-type: none"> • General ledger and chart of account structure, including performance metrics • Global consolidation • Sub-system issues related to configuration and data capture • Capabilities to manage multiple GAAP accounting during transition 	<ul style="list-style-type: none"> • Tax structures • Treasury and cash management • Legal and debt covenants • People issues, including education and training, compensation structures • Internal communications • External and shareholder communications

- Do we have a major ERP or finance transformation project in the works?
- Are we involved in or considering a major acquisition?
- What is the level of IFRS knowledge within the company, both domestically and globally?
- What would be the impacts on our company of a possible IFRS requirement in the U.S.?
- Have we assessed the cost and benefits of adopting IFRS?

Of course, your IFRS implementation roadmap will be significantly more detailed than merely addressing these few questions. Given the far-reaching scope of IFRS, the roadmap may assess the impact on each department in your organization, including finance, human resources, tax, legal, information technology, and investor relations. Other stakeholders may also be involved, including the board, audit committee, shareholders, and your external auditor.

By determining your costs, benefits, and timing up front, you can avoid the rushed approach (and unnecessary expense) that some companies experienced through initiatives such as the Sarbanes-Oxley Act and the Year 2000 computer issue.

A carefully designed roadmap may empower your company to convert on its own terms. By taking a measured and informed approach, you increase the likelihood of identifying value in an exercise that otherwise may be reactive and solely compliance driven. The value may show itself in the form of reduced costs of implementation, standardization and centralization of statutory reporting activities and related controls, greater consistency of accounting policy application, and possibly core finance transformation. Through your roadmap, you can independently validate perceptions and dispel misconceptions. And you can justify your decisions before the board, shareholders, other stakeholder groups, and the financial analyst community.

Competitive Landscape: Oil & Gas Companies by Accounting Standard

Company	Gross Revenue (millions)	Accounting Standard
Exxon Mobil	\$372,824.0	U.S. GAAP
Royal Dutch Shell	\$355,782.0	IFRS
BP	\$291,438.0	IFRS
Chevron	\$210,783.0	U.S. GAAP
Total	\$187,279.5	IFRS
ConocoPhillips	\$178,558.0	U.S. GAAP
China National Petroleum*	\$129,798.3	Chinese GAAP
ENI	\$120,564.7	IFRS
Gazprom	\$98,642	Russian GAAP
Statoil Hydro	\$89,223.9	U.S. GAAP

*China will be adopting IFRS over the next two years.

Data shown are for the fiscal year ended on or before March 31, 2008.

Source: <http://money.cnn.com/magazines/fortune/global500/2008/snapshots/387.html>

Timing is Everything

Why go through all this trouble? The answer is simple: sooner or later, you will have to. IFRS adoption is no longer a question of "if," but only of "when."

In late August 2008, the Securities and Exchange Commission (SEC) announced that it would issue a proposed IFRS "roadmap" that would include a timetable and appropriate milestones for mandatory transition to IFRS starting for fiscal years ending on or after December 15, 2014. Before evaluating whether to mandate adoption, specific proposed rule changes would provide a limited number of U.S. issuers an option of using IFRS in their financial statements for fiscal years ending on or after December 15, 2009. (For the latest news and information on IFRS, visit www.deloitte.com/us/ifrs.)

If you think the year 2014 gives you plenty of breathing room, think again. A conversion effort that is both sane (in the sense of avoiding the fire-drill type atmosphere that characterized compliance with Sarbanes-Oxley and the Y2K problem) and successful (one that can stand up to the scrutiny of regulators, analysts, and your independent auditor) will require a lengthy runway. In mid-2008, the American Institute of Certified Public Accountants announced that it considered a 3-5 year timeline to be reasonable for transition to IFRS. Other organizations have made similar determinations.

In addition, in the SEC action cited above, the Commission indicated a potential requirement for three years of comparative financial statements. If implemented, this could mean that a company would need to be running comparative statements as early as January 1, 2011.



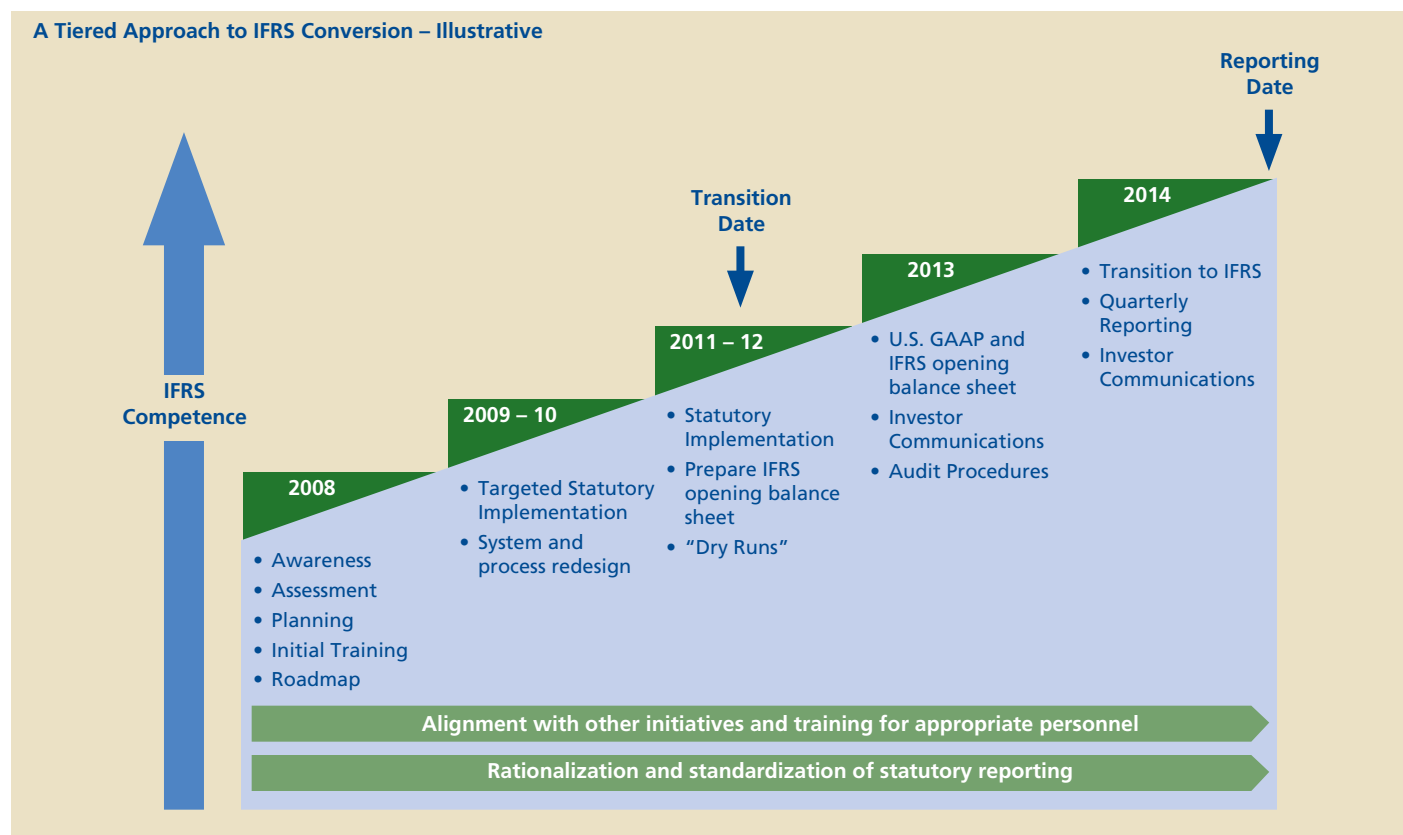
Which Approach Will Work for You?

Generally speaking, two approaches to IFRS conversion predominate: all-in and tiered. The former is characterized by a relatively short time frame; simultaneous conversion of all reporting entities; dedicated project teams; and commitment of significant resources. The latter is conducted over a more extended period; with phased conversion of reporting entities; with at least some personnel retaining their “day job” duties; and with a spreading out of project costs.

When the European Union converted to IFRS in 2005, it was, for most companies, an all-in effort driven by the tight timelines imposed by the European regulators. Without the luxury of time to convert on a staggered basis, most companies were forced to rush through the process, leading to inevitable inefficiencies and ineffectiveness.

A tiered approach – staged, rational, and measured – to IFRS conversion will likely provide better results. This comes with a seemingly self-contradictory caveat: You’ll have to act fast if you want to go slow. That is, if you want to reap the potential benefits of phasing in your conversion, you’ll need to start planning soon.

Companies that choose a tiered strategy should consider staggering their conversions on a country-by-country or region-by-region basis. As each group moves through the stages (see graphic, “A Tiered Approach to IFRS Conversion,” below), the processes developed and lessons learned are applied to the next group. Many O&G companies will choose Canada for the first conversion, given that country’s 2011 mandate for conversion to IFRS, as well as its significant industry presence.



Technical Accounting Issues for Oil & Gas Companies

U.S. GAAP and IFRS differ in key ways, including their fundamental premise. At the highest level, U.S. GAAP is more of a rules-based system, whereas IFRS is more principles-based. This distinction may prove more vexing than it initially appears, because most accounting and finance professionals in the U.S. have been schooled in the rules of U.S. GAAP. The overriding lesson from their years of study and work is this: If you have an issue, look it up. Under U.S. GAAP, voluminous guidance attempts to address nearly every conceivable accounting problem that might arise. And if that guidance doesn't exist, it generally is created. On the other hand, IFRS is a far shorter volume of principles-based standards, and consequently requires more judgment than American accountants are accustomed to.

Beyond the issue of rules versus principles, IFRS also can pose particular technical accounting challenges to O&G companies. The table "Technical Accounting Issues" highlights a number of these concerns. A more detailed discussion of a select few U.S. GAAP/IFRS differences follows.

Inventory: If one issue has many oil & gas companies — especially those in the production and refining subsectors — holding IFRS at arm's length, it's LIFO. Under U.S. GAAP, companies can apply LIFO rules to their inventory balances. In periods of rising commodity prices, this accounting method leads to higher recognized costs of sales, and thus reduces taxable income. However, LIFO accounting is not allowed under IFRS, so companies will need to recast recorded inventory balances under either a weighted average or FIFO rules for financial reporting purposes.

Technical Accounting Issues

Potential Differences	Potential Implications		
	Financial Statements	Process/IT	Other Issues
Property, Plant & Equipment	IFRS requires componentization approach; major maintenance expense treatments may differ.	Systems modifications may be necessary to track components and separate depreciation amounts.	May cause potential difficulty in initial componentization exercise depending on age of assets, previous acquisitions. Also, may have potentially significant tax implications.
Exploration and Development Costs	Certain full cost practices may not be appropriate under IFRS.	May result in different systems implications and cost tracking/allocations.	May require change in management reporting and key performance indicators used in business decisions.
Impairments	Differing impairment assessments (e.g., one-step approach under IFRS) exist between standards; IFRS impairments may be reversed.	Will require changes in impairment analysis and more likely requirements to measure impairment amounts.	Will lead to increased focus on periodic assessments and financial statement disclosures.
Inventories	IFRS does not permit LIFO.	Potential changes to inventory valuations and associated systems.	May have tax considerations relative to different inventory valuation and related tax deduction amounts.
Oil & Natural Gas Reserves	IFRS follows a different approach regarding depletion accounting.	May need systems revisions to track different depletion requirements and associated financial statement impacts.	Increased need for expertise around local reporting requirements and impacts on consolidated results.
Derivative Accounting	U.S. GAAP guidance is more prescriptive than IFRS, particularly in core businesses that have significant contractual activities on a forward basis.	May lead to potential policy changes and related changes to derivatives database and valuation systems/processes.	Differing definitions will necessitate a review of contracts.
Asset Retirement Obligations	Both standards have similar initial treatments, but IFRS amounts adjusted for discount rate changes.	May need changes to systems to incorporate discounting impacts.	May need increased monitoring of valuation inputs and their effects.
Environmental Liabilities	U.S. GAAP has more specific recognition rules than IFRS.	May have a reduction of U.S. GAAP-specific recognition parameters and increased focus on economic, legal factors.	Specific rules are replaced by enhanced reliance on judgment, making standardized processes more difficult.
Leases	Lease classifications may differ.	May have potential changes to lease revenue systems/processes.	May have potentially significant tax implications.

Exploration and Development Costs: Most of the integrated super-majors in O&G, as well as some smaller enterprises, use the “successful efforts” method of accounting for exploration and development (E&D). Under this method, the costs associated with locating, purchasing, and developing reserves are capitalized on a field-by-field basis. Once the reserves are proven, the capitalized costs can be assigned to the discovery; if discovery is not attained, then the expenditures are charged as an expense.

However, successful efforts is by no means a universal method. In its place, a number of upstream companies employ the “full cost” method of accounting for E&D. In contrast to the field-by-field approach of successful efforts, full cost is based on the aggregation of fields around geographic cost centers, typically organized on a country or regional basis.

Under IFRS, the proper application of full cost remains unsettled. IFRS 6, *Exploration for and Evaluation of Mineral Assets*, allows for the use of full cost only for exploration and evaluation. After this phase, companies must switch to the successful efforts method.

This treatment is currently under discussion and will likely evolve over time. Companies will need to monitor developments and make adjustments as required.

Asset Impairment: Two major differences exist between U.S. GAAP and IFRS on impairment:

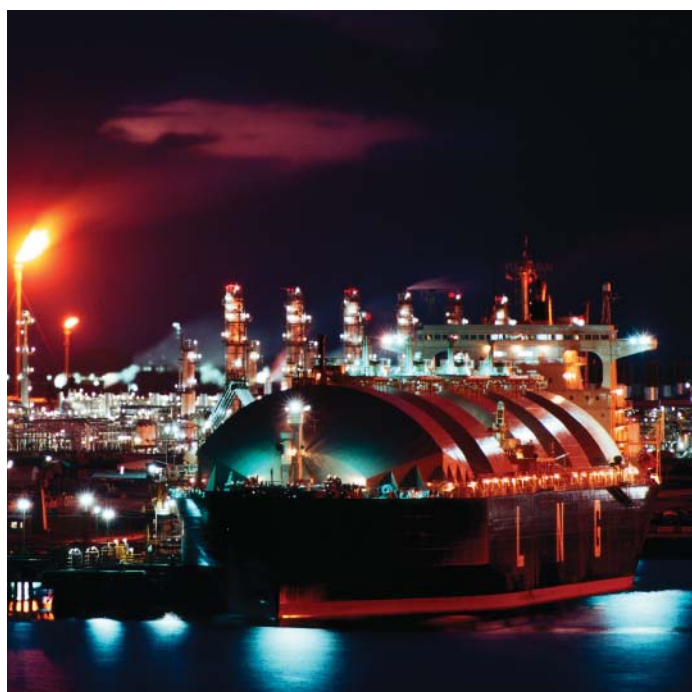
1. When assessing for impairment under U.S. GAAP, a “two-step approach” is applied. First, the carrying value of the asset is compared with the undiscounted value of the expected future cash flows to be generated from the asset. Second, where the carrying value is higher, the asset is written down to fair value. Under IFRS, the carrying value is compared with the asset’s “recoverable amount” (defined as the higher of the asset’s value in use, which is based on discounted future cash flows and fair value less cost to sell), and if higher, the asset is written down to the recoverable amount. The ultimate effect is that impairment may be recorded earlier under IFRS.
2. Under U.S. GAAP, reversals of previous impairments are not permitted. However, under IFRS, where there indicator that led to the impairment loss no longer exists, the previously-recognized impairment charge is reversed. (Goodwill impairment is an exception. Even under IFRS, goodwill impairment may not be reversed.) Under IFRS, you will have to track your asset impairments even after you initially write them down, to determine whether there is a need for a reversal.

Differences also can arise in areas such as determination of the appropriate level of impairment for analysis and the determination of fair value. You should consult your professional advisors for guidance in these areas.

Asset Componentization: Under IFRS, the major components of an asset must be separated and depreciated over their estimated useful lives. Identifying the significant components of refineries, LNG terminals, offshore platforms, and other large assets represents a major challenge. In an upstream environment, for components that typically require replacement during the working life of the overall asset, depreciation would usually be calculated on a units of production basis over the proved reserves.

Refinery turnarounds present particular accounting challenges, as some of the associated costs may be capitalized while others can be expensed. In general, turnaround costs that do not involve the replacement of components or the installation of new assets should be expensed when incurred.

Companies that convert to IFRS can expect a complex and potentially lengthy process to inventory their property, plant, and equipment; identify the applicable components; and to adjust the depreciation calculations of fixed assets.



More Than Accounting and Financial Reporting

Without question, IFRS will impact the general ledger, and financial statements. But in a relative sense, the accounting and financial reporting may be the easy part. How you handle the nonfinancial aspects of the transition to IFRS may be a far more accurate indicator of your success. Among the areas warranting your attention are tax, human resources, contract management, and technology.

Tax Issues: It is important to address the tax consequences of the pretax differences between IFRS and U.S. GAAP because a conversion to IFRS requires changes to several financial accounting methods. Consequently, companies may need to reevaluate their existing tax accounting methods.

Global tax planning will need to be updated to capitalize on the operational and other anticipated changes associated with an IFRS conversion to ensure such changes are executed in a tax-efficient manner.

Planning may involve an analysis of whether to implement a certain tax strategy either before or after a conversion. Also, to the extent a tax result depends on the pretax statutory books, consideration should be given to whether there are additional tax benefits to be obtained under one standard over the other.

Also, because IFRS is more principles based than U.S. GAAP, standardized accounting policies may have to be developed to ensure consistent tax accounting throughout an organization. Understanding the future ramifications of these policies will be paramount to generating the most favorable tax consequences in the greatest number of jurisdictions.

For more information, see “IFRS for U.S. Companies: Tax Implications of an Accelerating Global Trend” at www.deloitte.com/dtt/cda/doc/content/us_tax_ifrs_pov_061708.pdf.

The HR Factor: As noted, IFRS involves much more than reorganizing the chart of accounts. It represents a change that cascades well beyond the finance department.

Consequently, human resources issues may be a major concern. A conversion project will place increased demands on your personnel, which may come at a time when you are least able to handle it. Finance organizations have streamlined in recent years, downsizing accounting functions through reduced hiring, layoffs, and attrition, as well as outsourcing or offshoring key functions. Unfortunately, these personnel reductions may mean that the people who could best help with your IFRS efforts are no longer available.

Recruiting may pose another challenge, particularly in the United States. College accounting programs across the country represent an important pipeline for keeping finance functions staffed and operating. Yet, most U.S. university accounting programs are only now beginning to develop comprehensive instruction on IFRS.

A Taxing Concern?

Current tax law requires companies reporting inventories on a LIFO basis for tax purposes to also report inventories on a LIFO basis for financial reporting purposes. As a result, the adoption of IFRS could result in a violation of this conformity requirement and, under current law, a significantly higher tax bill.

Consequently, O&G companies with substantial inventory balances may be reluctant to convert to IFRS due to this negative tax consequence. Some business observers speculate that the U.S. Congress and the Internal Revenue Service (IRS) will be compelled to address this issue should IFRS be mandated, perhaps by offering a one-time conversion opportunity that limits the tax liability. However, with billions in tax revenue at stake, there will be enormous pressure on all sides of the issue, making final resolution difficult to predict. O&G companies should closely monitor developments in this area or actively explore options, from a tax planning standpoint, to develop alternative financial reporting with LIFO that would comply with the conformity requirement.

This issue can be addressed through training programs in the U.S. and internationally, to help key personnel become proficient in both IFRS and U.S. GAAP.

Contract Management: An IFRS conversion will potentially impact your existing contracts. Consider involving your legal team as part of the remedy. Issues may include the following:

- Many contracts may need to be reviewed to make sure the proper accounting treatment is followed under IFRS. To improve the efficiency of this process, a contract database could be created (if not already in place) to better monitor the IFRS conversion and tracking of effects.
- Many O&G companies participate in joint ventures that they don't directly control. Thus, it can be difficult for the company to obtain all the necessary information to accurately convert to IFRS. For example, trying to identify the components of a plant that was funded — but not built — by your company may prove vexing. In such instances, you may want to reassess (and potentially revise) your requirements for financial and accounting information from the joint venture.
- The IFRS conversion may trigger the need to amend contracts with financial institutions and joint venture partners in regards to financial accounting information to be supplied by your company. You may have to reword certain sections to address regulatory or third-party requirements to replace U.S. GAAP information with IFRS information.

Technology Issues: IFRS is expected to have wide-ranging impacts at different levels of the IT systems architecture. The realignment of the company information systems will pose a real challenge for IT (along with the rest of the organization). Virtually all applications and interfaces in the system architecture can be affected, from the upstream or source of data to the farthest end of the reporting tools. As such, time and resource needs may be significant.

As you plan changes to your IT systems, you will need to take into account external factors such as local and international regulations, financial consolidation of subsidiaries, stock markets, and external auditors. This business transformation should not be considered a one-step project. It may be necessary to implement short-term initiatives strategically designed to institute an effective long-term solution for the organization.

The European Experience

In July 2002, the European Parliament passed legislation requiring listed companies to convert to IFRS by 2005. The short time frame and extensive reach of the directive had many companies scrambling to comply. Anecdotal reports suggest that the conversion placed significant resource pressure – human and financial – on finance teams and their companies at large.

A more tangible measurement of the effort can be found by comparing the length of European companies' 2004 (local GAAP) and 2005 (IFRS) financial statements. The latter averaged more than 50 percent longer than the former; in some instances, reports doubled in length. Much of the increase can be attributed to an increased level of disclosure in the financial statements in areas such as judgments made and assumptions used.

Potential Technology Impacts

Upstream Source Systems and Transformation Layer	General Ledger and Financial Applications	Reporting Data Warehouse Planning and Calculation Engines	Downstream Reporting Capabilities
Differences in the accounting treatment between current accounting standards and IFRS will create a need for new input data.	Differences in the accounting treatment between current accounting standards and IFRS will likely drive changes to general ledger design, chart of accounts, as well as sub-ledgers and feeds.	IFRS has much more extensive disclosure requirements, requiring regular reporting and usage of financial data that may not be standardized in current data models.	The differences that arise in the accounting treatment between current accounting standards and IFRS will create a need for changes in reporting.
Data and transactions that are captured, stored and ultimately sent to the financial systems may not have all the needed attributes or qualities.	Multinational companies may ultimately realize a need to re-develop general ledger platforms or additional sets of books to ensure compliance with multiple financial reporting requirements.	Increased need for documented assumptions, sensitivity analyses; potential factors that could affect future development may expand the scope of information managed by financial systems.	Assumption changes from period to period can introduce significant volatility and require detailed support for derivation and rationale for changes, requiring design of additional reports.
Sub ledgers within the ERP may have additional functionality to support IFRS that is currently not being utilized but could be implemented.	Multi-ledger accounting functionality within newer releases of ERP's may be considered for long-term solutions.	Reporting warehouse feeds to calculation engines may need to be adjusted in a standardized way to support reporting processes.	External reporting templates will likely require revisions to reflect IFRS requirements.
Transformation layer not likely to have been designed with IFRS in mind; data sender/receiver structures may need to be adjusted.	Changes to IFRS will likely necessitate redesigned accounting, reporting, consolidation, and reconciliation processes, which may impact configurations of the financial applications.	Data governance functions and meta data repositories (potentially including data dictionary, ETL & business intelligence tools) may need to be adjusted to reflect revised data models.	Increased disclosures such as sensitivity tests and roll-forwards may require additional ad hoc query capabilities.
Over time the potential for acquisitions of companies using IFRS will increase; altering source systems and Extract, Transform and Load (ETL) tools to provide all needed data elements will make integrations significantly more efficient.	Differences that arise in accounting treatment between current accounting standards	Current valuation systems may not have functionality to handle IFRS requirements.	

Regulatory Rewards?

The opportunity to reduce local GAAP reporting and coalesce around a single standard will be appealing to many O&G companies. The change may be dramatic. For example, until recently, companies doing business in Western Europe had to track financial information using up to 21 different GAAPs. The EU's 2005 conversion to a single standard harmonized and simplified compliance, and today there is more cross-border consistency in the application of rules and standards.

A fringe benefit of conversion may be the promise of collaboration among various regulatory bodies. The model for this was provided by the Committee of European Securities Regulators (CESR), an independent body that works to improve coordination among EU securities regulators. This group, formed in 2001, played an important role in the IFRS conversion effort by bringing together regulators from across the EU to discuss issues, smooth over differences, and reconcile complex points of view.

As other countries across the globe adopt IFRS, the prospect of additional regulatory bodies (such as the SEC) interacting with their counterparts increases. Thus, the movement toward IFRS is changing the regulatory dynamic, forcing regulators to think globally, instead of nationally, in how they treat these issues.

Certain accounting issues proved especially vexing during the transition, including asset impairments, financial instruments, lease accounting, and emission rights.

Among the lessons learned from the European experience were the following:

The effort was often underestimated. The original misconception that conversion was solely an accounting issue was replaced with a growing realization that the initiative was larger and more complex.

Projects often lacked a holistic approach. Because of the limited view cited above, companies frequently did not take the collateral effects into consideration, such as the impacts on IT, HR, and tax.

A late start often resulted in escalation of costs. Those few companies that anticipated conversion and took steps to prepare for it were in much better shape than those that did not. Companies that delayed their response paid a price for it, in terms of higher costs and greater diversion of resources.

Many companies did not achieve “business as usual” state for IFRS reporting. The highest quality financial data is obtained when companies fully integrate IFRS into their systems and processes. The compressed time frames often precluded this possibility; instead, first-year financials were often produced using extraordinary, labor-intensive, and unsustainable measures.

Several companies are only now starting to explore benefits from IFRS implementation. Due to multiple constraints, the first-year effort in the EU was focused more on “getting it done.” Potential benefits in terms of reducing complexity, increasing efficiency, decreasing costs, and improving transparency had to be deferred.

Smoothing the Transition

If you decide an accelerated IFRS conversion is desirable, here are a few considerations for smoothing implementation:

Leverage existing projects: If you are already going through — or have recently completed — an enterprise resource planning (ERP) or finance transformation project, now may be the time to consider IFRS adoption. Recent versions of major ERP systems are designed to accommodate IFRS, which can be mapped in, usually with significant cost savings.

Conduct a trial run: Implementation might be easier if you take a bite-sized approach starting with a single country or reporting entity. Use existing reporting requirements and local country IFRS requirements to your advantage. For example, subsidiaries in countries adopting IFRS over the next three years may be good candidates for your trial run. Learn from this initial conversion exercise, and apply the lessons learned to your global rollout down the road.

Consider shared services centers: IFRS provides a compelling reason to establish shared services centers, to potentially consolidate dozens of local GAAPs down to a single reporting standard. Geographically-dispersed finance offices could be drastically reduced or even eliminated in favor of a central finance function, strategically located to take advantage of tax incentives, payroll savings, and facilities cost reductions. In many cases, this concept is already aligned with the strategic direction O&G companies have taken or are currently considering relative to their finance function.

Strengthen controls: Many O&G companies have operations that are located in developing areas such as Africa, Russia, the Middle East and South America. A decentralized structure can sometimes lead to reduced oversight and weakened controls. IFRS offers the opportunity to implement standardized frameworks and processes to enhance the overall control environment.

Refresh your policies: Conversion to IFRS drives a need to revisit fixed asset componentization, inventories, derivatives, revenue recognition, and other accounting policies (as discussed on page 4). In other words, IFRS provides a refresh exercise for accounting policy implementation, with the aim of more accurate and timely financial reporting.

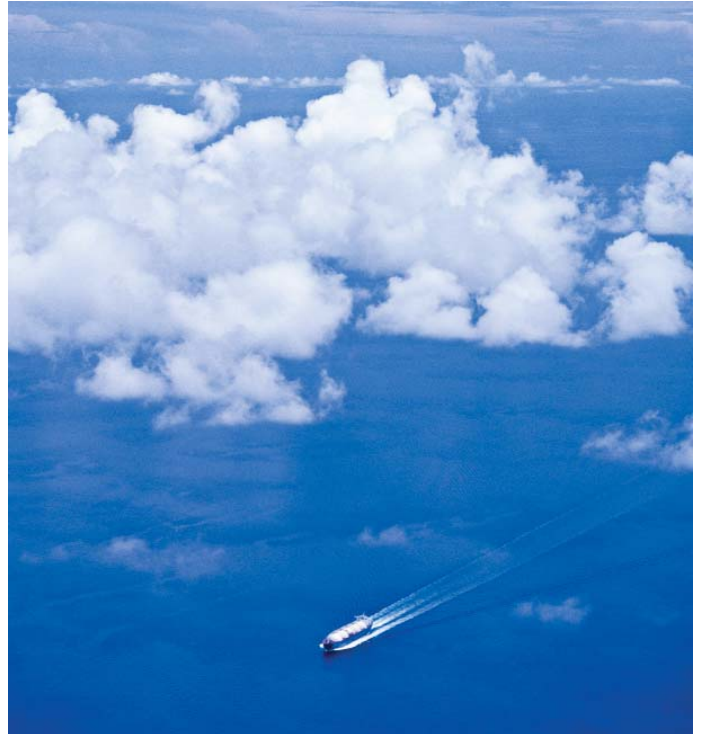
Improve your access to capital: Capital is migrating away from the U.S. for a number of reasons, including the weakness of the dollar, the credit crisis, and the growth of foreign financial centers in Europe and Asia. Regardless of the cause, when it comes to raising capital, trends are clearly global. IFRS can potentially improve liquidity and access to capital by offering greater transparency, in the form of full and better disclosure, to investors.

Access to capital may also be enhanced by virtue of aligning with a common standard. Markets and investors have been demanding a common standard for years, and IFRS has increasingly served that need. As such, companies reporting under IFRS may have an improved ability to access other capital markets that have adopted the standard.

Getting It Right

IFRS will present major challenges even before you get to the nuts and bolts of the conversion process. For example, just deciding when to tackle IFRS represents a hurdle in itself. That's where the development of a comprehensive IFRS implementation roadmap comes into play. There are simply too many variables to allow for a back-of-the-envelope calculation. You need to assemble your best minds in finance, HR, tax, legal, IT, investor relations, and other constituencies. You should call upon your board, audit committee, and other stakeholders. And you will need to assess the competitive landscape to understand what your competitors are doing.

Don't allow yourself to be distracted by the rising decibel levels around IFRS. The benefits of a reasoned and deliberate conversion defined by a thorough plan may be substantial.



Resources

Deloitte has extensive IFRS experience in the industry. With thousands of IFRS-experienced professionals in our global network, we provide a comprehensive array of services related to IFRS. As a multidisciplinary organization, we can help companies address a wide range of IFRS issues.

Deloitte offers companies assistance with:

- evaluating the potential impacts of IFRS
- assessing readiness for IFRS conversions
- implementing IFRS conversions, providing support with technical research, project management, and training
- addressing the implications of IFRS in such areas as tax, finance operations, technology, and valuation

Deloitte's U.S. Oil & Gas Practice:

- serves 82% of the Oil & Gas Fortune 1000 and 97% of Oil & Gas Fortune 500 companies
- provides accounting and enterprise risk services to 80% of the top 25 Oil & Gas companies by revenue and 64% of the Oil & Gas Fortune 1000 companies
- provides tax services to 88% of the top 25 Oil & Gas companies by revenues and 75% of the Oil & Gas Fortune 1000 companies
- provides consulting services to 68% of the top 25 Oil & Gas companies by revenues and 47% of the Oil & Gas Fortune 1000 companies
- provides financial advisory services to 88% of the top 25 Oil & Gas companies by revenues and 73% of the Oil & Gas Fortune 1000 companies
- serves 93% of Oil & Gas Fortune 1000 companies that are headquartered in Houston.

Deloitte's Online Resources

For a wealth of online resources related to IFRS, visit www.deloitte.com/us/ifrs. Available materials include newsletters, whitepapers, pocket guides, timelines, webcasts, podcasts, and more.

International Accounting Resources

The International Accounting Standards Board (IASB) provides limited guidance for the extractive industries in its IFRS 6 standard. Also relevant to O&G companies are the following standards:

- IAS 16 Property, Plant and Equipment
- IAS 31 Interests in Joint Ventures
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets

Visit the IFRS section of www.iasb.org for additional details and copies of the standards.

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