OMV Aktiengesellschaft

David C. Davies
Chief Financial Officer

International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH
United Kingdom

Vienna, Sept. 10th, 2002

Dear Sirs,

please find enclosed our comments on the exposure draft of revised IAS 2 where it is proposed to eliminate the currently permitted alternative treatment of using the last-in-first-out- (LIFO) inventory valuation method. We would respectfully ask you to treat our comments on this draft as confidential.

Should you have any questions regarding this matter, please do not hesitate to contact our Head of Group Accounting Mr. Peter Geyer (Phone: + +43 1 40 440 21519).

Kind regards

David C Davies BA(Hons) FCA MBA

Chief Financial Officer
OMV Aktiengesellschaft

Comments to the International Accounting Standard Board on the exposure draft of revised International Accounting Standard (IAS) 2 (IASB):

Dear Sirs,

we would like to comment on the exposure draft of revised IAS 2 where it is proposed to eliminate the currently permitted alternative treatment of using the last-in-first-out-(LIFO) valuation method. We respectfully ask that you reconsider this draft considering the advantages provided by LIFO for interpreting the financial performance of companies whose activities are in commodity markets where prices are subject to rapid fluctuation.

OMV Group

With consolidated sales of EUR 7.74 bn (2002) OMV is Austria's largest listed industrial company. Furthermore OMV is one of the leading oil and gas groups in Central and Eastern Europe. Our business segments comprise Exploration and Production, Refining and Marketing (R&M), Gas as well as Chemicals and Plastics. Refining and Marketing is the biggest division with sales of EUR 5.58 bn (2002). The Group operates two refineries with a combined name plate capacity of some 270.000 bbl/d. Our plants are in Schwechat, Austria, and Burghausen, Germany.

Because of the volatility of oil refining margins, especially in Austria, as well as the characteristics of the market for crude oil with its fluctuating prices, we remain convinced that LIFO is the best formula to show a true and fair view of the financial performance and situation of our company.

Our current financial statements are prepared under local Austrian law with a reconciliation to US GAAP. Under both structures, LIFO is permitted and has been adopted by the Group. As a listed company within the European Union we will, in the near future, prepare our Group reporting based on standards announced by the IASB.

Refining in Austria:

One of the challenges we face as the only refiner of oil within Austria, is the legal obligation to maintain certain reserves of oil and oil products as inventory, so called Produktnotstandsreserve or PNR. For 2004 it is expected that OMV must maintain a PNR level of 1 .9 mio tonnes of inventory; this out of a total Austrian refining capacity of 8.6 mio tonnes – 22% of production is therefore required to be held as PNR inventory.

For information, the PNR levels historically have been as follows:

2002 for PNR 04/2003 - 03/2004: 1.5 Mio t (Plan 07/02)
2001 for PNR 04/2002 - 03/2003: 1.4 Mio t
2000 for PNR 04/200 1 - 03/2002: 1.2 Mio t
1999 for PNR 04/2000 - 03/2001: 1.4 Mio t

Impact of applying average cost formula on OMV Group net income

Had OMV applied an average cost formula instead of LIFO in recent periods, Net Reported Income would have been as follows:

	2000 +	30%
	2001 -	20%
First half	2002 +	10%

Clearly, reported results can be substantially distorted merely by changing the valuation principles employed. It is our view that moving to this valuation method would move the Group's reported net income substantially away from the matching principle, which we believe is fundamental to presenting a true and fair view of our operations.

Advantages of LIFO in fluctuating markets:

- Better understanding of the income from matching cost of sales with sales
- Supplementary disclosure requirements in IAS could help to improve the understanding of financial position
- Reduction of fluctuations (especially in interim reporting)
- Removal of Net Realisable Value volatility (see below)

Problems with FIFO or average cost formulas in fluctuating markets:

- Conflict with Matching Principle

Mismatching of input and output values due to market volatility, distorting the informative value of margins as high selling prices are matched with low purchase prices or vice versa.

- Valuation of period end inventories

Although -in theory- applying LIFO in markets with fluctuating price levels has earnings effects which differ from those produced when using the FIFO method, there is an essential difference between LIFO and FIFO. When applying LIFO, given the underlying assumption that the most recently produced products are those which have been sold, it is not necessary to perpetually establish the components of the final stock position. In the long term this means that LIFO has a tendency to stabilise the values of any given level of physical inventory and that period end valuation swings are also reduced. When supplemented by adequate interim reporting provisions this method readily facilitates an interpretation of the reported results. Any disadvantage perceived to arise from presenting inventories in the balance sheet at historical values which may be in the long run significantly below the fair value could also be addressed by such supplementary disclosures.

Conclusion:

Normally a restriction of different valuation principles can improve the comparability of different companies' respective performance. From our point of view, however, companies in industries such as the oil industry, face widely fluctuating prices in their product markets and LIFO, including the supplementary disclosures required by IAS, should be the best formula to give a true and fair view of their financial performance.

Small Groups and Groups of medium size, operating in volatile industries such as the oil industry, will suffer from valuation effects in inventory which violate the matching principle and which may occur irrespective of whether there has been any change in the underlying level of physical inventories. Under these circumstances the prospect of managing, interpreting and forecasting financial performance as measured by net income would be particularly problematic.

In conclusion, we respectfully request that the proposal to consider abolishing LIFO as an acceptable inventory valuation principle be reconsidered.