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IASB
Sir David Tweedie
Chairman IASB
30 Cannon Street
London EC4M 6XH
U.K.
September 12, 2002.

FM/fd – 02/78

Dear Sir,

Re Exposure draft of proposed improvements to International Accounting Standards

We appreciate the opportunity to comment the question 1 concerning IAS 2.
It relates to the proposal to eliminate the allowed alternative treatment (the LIFO for the evaluation of the cost of inventories and the valorisation of cost of product sold.

In a conceptual point of view we are in agreement with the objective of the IASB namely the elimination of alternative treatments in order to permit a better comparison between financial statements, to deal with some convergence issues and to improve the quality of IAS.

In no way, we consider that the elimination of LIFO method will contribute to reach such objectives.

- This elimination will generate another divergence with US Gaap. FASB doesn't have in mind to suppress the LIFO method.
- The utilisation of LIFO method is widespread in different sectors of activity and mainly in Oil and *Gas* industry.
- We consider that LIFO method gives a better picture and a better information about the gross margin by comparing a turnover to a cost of product which is closed by the purchased market value of the products sold.
  While the FIFO method juxtaposes a turnover to a one or two months aged cost of product sold.

rue de l'Industrie, 52 - B-1040 Bruxelles • Nijverheidsstraat, 52 - B-1040 Brussel
Tel. +32 (0)2 288 91 11

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The argument that FIFO method better represents the fair value of assets does not really appear to be relevant to a P&L point of view. Utilisation of LIFO method and information provided in the financial notes gives a better knowledge about the fair value of inventories.

In case of the Oil and *Gas* industry, inventory levels are driven by security inventories considerations. By law, the Oil and Gas companies have to hold legal inventories" (minimum 90 days of quantities sold). Inventories are, at this level, intrinsically long term assets comparable to fixed assets and are not really part of the working capital. For this reason the best way to evaluate the real products flows and to reflect management intentions is the application of the LIFO method.
American Oil Companies are using LIFO, the elimination of LIFO would lead to a total absence of comparability between the European companies and their major competitors. In such a case, communication on financial performance would have to be made on management accounting information which will not be in accordance with published financial statements.
For those reasons we consider that the elimination of LIFO will not contribute to an improvement of the quality of IAS and of the financial statement reporting.

Yours Sincerely,

F. Méan,
Chief Financial Officer.

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