

## Management report from the board of directors

### Overview of TotalFinaElf's fiscal year

Net income (Group share) excluding non-recurring items rose to 7,637 million euros in 2000, a 128% increase compared to pro forma 1999. Reported net income (Group share) was 6,904 million euros in 2000, an increase of 97%.

The Group's three business segments are:

- the Upstream segment, which includes exploration, hydrocarbon production, gas, electricity, and other forms of energy;
- the Downstream segment, which includes refining, petroleum product marketing and distribution, specialty products, and the trading and shipping of crude oil and products;
- the Chemicals segment, which includes Petrochemicals & Plastics, Intermediates & Performance Polymers and Specialties.

Operating income from business segments excluding non-recurring items rose to 14,884 million euros in 2000, a 134% increase as compared to pro forma 1999.

Net operating income from business segments excluding non-recurring items<sup>(1)</sup> amounted to 8,035 million euros in 2000.

The 2000 environment was favorable for the oil industry. The oil price increased strongly as well as refining margins and the dollar exchange rate. The average Brent oil price rose by 58% to \$28.5/b in 2000 from \$18/b in 1999. European refining margins increased by 145% to \$23.8/t in 2000 from \$9.7/t in 1999. The dollar appreciated relative to the euro in 2000 (+16%), averaging an exchange rate of 0.92 dollar per euro.

Changes in market parameters had a combined positive impact of 7.3 billion euros on operating income.

The combination of growth and synergies/productivity programs increased 2000 operating income by 1.2 billion euros, in line with the announced program to improve operating income over the period 1999-2003 by 4.4 billion euros per year by 2003.

The return on capital employed for the business segments (ROCE) increased to 21% in 2000 from 11.5% in pro forma 1999.

### Upstream growth

Operating income from the Upstream segment, excluding non-recurring items, rose to 10,113 million euros, a 146% increase compared to pro forma 1999. The Upstream segment fully benefited from the sharp rise in oil prices and the stronger dollar.

Net operating income from the Upstream segment, excluding non-recurring items, was 4,841 million euros in 2000. The return on capital employed (ROCE) for Upstream rose to 29% in 2000, a strong increase from 1999.

Upstream production rose to 2,124 mboe/d in 2000 from 2,065 mboe/d in pro forma 1999, a net increase of 3%. The underlying growth rate was 6% excluding the impact of asset sales and the negative price effect on production volumes for PSC and buy-back contracts.

In 2000, liquids production declined by 2% to 1,433 mb/d, and gas production rose by 13% to 3,758 Mcf/d.

Proved reserves continued to grow in 2000, rising by 3% to 10,762 Mboe from 10,455 Mboe in pro forma 1999. Based on the 2000 average production rate, these reserves represent 14 years of production. The 1998-2000 three-year average reserve replacement rate for consolidated subsidiaries was 189%, which compares favorably to that of the other majors.

For consolidated subsidiaries, the 1998-2000 three-year average reserve replacement cost remained at a low and competitive level of \$3.7/boe.

Following another very good year for exploration, the 1998-2000 three-year average finding cost decreased further to a competitive level of \$0.7/boe.

**In Europe**, development continued on the Elgin-Franklin fields (TotalFinaElf-operated 46.2%). Following the installation of the production, utilities and quarters platform on site in July 2000, the hook-up to wellhead platforms and commissioning operations are progressing well. First production is expected at the end of the first quarter 2001.

In the CIS, the OKIOC consortium (TotalFinaElf 14.28%) made a major hydrocarbon discovery with the exploration well, Kashagan East 1, in the northeast Caspian Sea in Kazakhstan. A second exploration well, Kashagan West 1, was started in October 2000. The results from this well are expected in the spring of 2001.

**In Africa**, the magnitude of the Akpo discovery in 2000 on the deep offshore OPL 246 (TotalFinaElf-operated 24%) in Nigeria has been confirmed with two appraisal wells.

In Angola, on Block 17 (TotalFinaElf-operated 40%), two new discoveries, Jasmim and Perpetua, were made in 2000, making

<sup>(1)</sup> net operating income = operating income + equity in income (loss) of affiliates + dividends received + other income (expense) + increase in capitalized interest - taxes (excluding interest impact) - amortization of goodwill and intangibles

10 discoveries thus far on this block. Development of the Girassol field continued. First production is scheduled for year-end 2001, with a target production plateau of 200 mb/d to be reached in 2002. Basic engineering studies for the development of the Dalia field were launched in December 2000. On Block 14 (TotalFinaElf 20%), production on the Kuito field, which started up at the end of 1999, is continuing to grow with the launch of Phase 1C of the development. Also on Block 14, a new discovery, Lobito, was made in 2000.

**In the Middle East**, on the Oman LNG project (TotalFinaElf 5.54%) the first two trains of the Qalhat liquefied natural gas plant with a capacity of 6.6 Mt/year started up in 2000. The first cargo of LNG left the terminal in April 2000 for delivery to South Korea. In Iran, on South Pars 2-3 (TotalFinaElf-operated 40%), development work continued with production start-up scheduled for the first quarter 2002.

**In the Far East**, development of the Tunu and Peciko fields (TotalFinaElf-operated 50%) in Indonesia continued, leading to an increase in production from 340 mboe/d in 1999 to approximately 440 mboe/d in 2000.

**In South America**, the Sincor project (TotalFinaElf-operated 47%) in Venezuela is progressing on schedule. The initial production phase started in December 2000 with 40 mb/d of extra-heavy oil production that is diluted with a lighter crude and marketed as such. The upgrader is due to start up at year-end 2001, allowing a future plateau production level of 180 mb/d of processed high quality synthetic crude.

In Bolivia, on Block XX West (TotalFinaElf-operated 41%), delineation of the Itau discovery was continued with the Itau X-2 well, which led to the discovery of additional gas reserves in early 2001. On the San Alberto permit (TotalFinaElf 15%), initial development was completed in December 2000 and production started up in January 2001. This initial phase will lead to gas production of up to 6 Mm<sup>3</sup>/d for export to Brazil.

**In North America**, in the deep offshore Mississippi Canyon Corridor, a decision was made to develop the Aconcagua (TotalFinaElf-operated 50%) and Camden-Hills (TotalFinaElf 16.67%) gas fields, located in water depths of 2,100 meters as well as the King's Peak field. TotalFinaElf is the operator of the Canyon Express transport system that will link these fields to Canyon Station.

**In Gas and Power**, TotalFinaElf continued to develop its presence in the fast-growing Southern Cone region, where the company already ranks among the largest producers and reserve holders of natural gas. In 2000, TotalFinaElf acquired a 9.7% interest in the Brazilian part of the Bolivia-Brazil gas pipeline, which will supply the rapidly developing markets in south and southeast Brazil from its gas reserves in Bolivia. The Group also acquired the Southern Cone pipeline interests of Transcanada Pipelines Ltd. In November 2000, TotalFinaElf concluded an agreement with AES Corporation to acquire all its power generation assets in Argentina from the Chilean company GENER, thus gaining an installed capacity of approximately 4,200 megawatts.

In the Upstream, the Group disposed of some non-strategic assets, including the UKCS 4th round and the Emeraude field in Congo.

### Threefold increase in Downstream operating income

Downstream operating income excluding non-recurring items tripled to 3,144 million euros in 2000 from 1,046 million euros in pro forma 1999. The Downstream segment fully benefited from the upsurge in refining margins and the stronger dollar. On the other hand, marketing margins were squeezed because of rising prices.

Of the 2.1 billion euros increase in operating income, 70% resulted from the changes in market parameters and 30% from internal synergies and productivity gains.

Net operating income from the Downstream segment, excluding non-recurring items, was 2,232 million euros in 2000.

The return on capital employed (ROCE) for Downstream rose to 19%, a strong increase from 1999.

In 2000, refinery throughput was stable at 2,411 mb/d, including 2,109 mb/d from Europe.

Refined product sales volumes fell slightly to 3,695 mb/d in 2000 from 3,830 mb/d in pro forma 1999.

**In European refining**, implementation of the refinery hub concept in 2000 led to integrated management of neighbouring facilities and will continue to generate synergies. This management concept allows optimized logistics on a larger base, supply integration, product exchanges, and also exploits the benefits of the integration of refining with the Group's other operations, particularly petrochemicals.

Integration of refinery management and continued efforts to lower costs enabled the Downstream segment to lower the breakeven point for its refineries to \$10/t in 2000 (based on major products).

**In marketing**, as a result of the mergers, TotalFinaElf is the leader in West Europe, as comprised by the six largest markets (France, Spain, Benelux, United Kingdom, Germany, Italy).

**In Africa**, TotalFinaElf is now the co-leader on the continent with activities in more than 40 countries and a network market share above 10% in more than 30 countries. The TotalFinaElf network market share in all of Africa is now greater than 20%.

**In Asia**, TotalFinaElf continued in 2000 a selective development program for specialty products and retail marketing.

In August 2000, TotalFinaElf disposed of the Big Spring refinery in Texas and associated assets and, at year-end 2000, completed agreements satisfying the divestments required by the European Commission for its approval of the merger of Totalfina and Elf Aquitaine. These agreements relate to the sale of interests in certain oil pipelines and refined product depots, the opening of the refueling infrastructures at the Lyon and Toulouse airports, the sale of 70 highway service stations under the Total, Fina and Elf brands, and the sale in France of Elf Antargaz and the associated LPG logistics.

## Continued growth for Chemicals

Chemical sales rose by 21% to 20,843 million euros in 2000 from 17,268 million euros in pro forma 1999. Operating income excluding non-recurring items rose by 37% to 1,627 million euros from 1,189 million euros in 1999. For the year, higher petrochemical margins led to a 0.2 billion euro increase in operating income versus pro forma 1999.

During the first half of 2000, Chemicals benefited from a favorable economic environment: sustained activity for Asia and Europe and continued growth in the United States. In the second half of the year, however, the beginning of an economic slowdown hurt certain sectors, particularly the Polymers. Chemicals were also affected by an increase in raw material prices which could not be fully passed on to consumers. Intermediates & Performance Polymers showed strong resilience to declining margins. Specialties continued to grow in a favorable environment.

Net operating income from the Chemicals segment, excluding non-recurring items, was 962 million euros in 2000.

The return on capital employed (ROCE) for Chemicals (excluding the impact of 143 million euros of goodwill amortization) was 10% in 2000, an increase from 1999.

**In Petrochemicals & Plastics**, the major projects initiated in 1999, in Europe and the United States, have now entered their implementation phase, including the steamcracker at Port Arthur (Texas) and the ethylene pipeline linking the Carling steamcracker to the Viriat storage facilities in France. In the United States, the construction of plants adjoining the steamcracker and the refinery in Port Arthur (butadiene extraction, indirect alkylation...), part of a joint venture between TotalFinaElf, BASF and Shell, was confirmed.

In Europe, the proposed expansion of the Carling steamcracker (France) was launched. This expansion, combined with the steamcracker's enhanced energy efficiency, will come on stream at the end of 2001.

TotalFinaElf exited Appryl, its polypropylene joint venture with BP. Under the terms of the agreement reached with BP, TotalFinaElf took over the Gonfreville site, where capacity was increased to 200 mt/y at the end of 2000 and the compounds activities for automotive applications. TotalFinaElf and BP also set up a manufacturing joint venture on the Lavéra site, with production split between both partners.

**Intermediates & Performance Polymers** continued to grow, recording steady increases in sales and operating income.

**Specialties** enjoyed strong growth in 2000, boosted by dynamic markets, like electronics, automotive and transportation, and by targeted external growth operations.

Hutchinson completed two acquisitions in 2000. The first, Barry Controls, has enabled Hutchinson to join the leaders in both the American and world market sector of industrial and aerospace anti-vibration products. The second, Söke, has strengthened Hutchinson's market share in the consumer markets of Central Europe.

ATOTECH (electroplating) acquired the assets of the American company McGean Rohco in the electroplating and anti-corrosion sector. This operation has made the company the market leader in the United States and further developed its position worldwide.

In Paints and Adhesives, new organizational structures resulting from mergers have been put in place.

In addition, the Group disposed of certain Chemical assets, notably the Oleochemicals and Metal & Aviation.

## Exchange offers for the remainder of Elf Aquitaine and PetroFina shares

On May 24, 2000, the Board of Directors approved launching an exchange offer for the Elf Aquitaine shares not held by the Group. The exchange parity was 4 TotalFinaElf shares for 3 Elf Aquitaine shares. Following this exchange offer, as of December 31, 2000, TotalFinaElf holds directly or indirectly 275,979,458 shares of Elf Aquitaine (99.43% of Elf's capital).

On September 5, 2000, the Board of Directors approved launching an exchange offer for the PetroFina shares not held by the Group.

The exchange parity was 9 TotalFinaElf shares for 2 PetroFina shares. Following this exchange offer, as of December 31, 2000, TotalFinaElf holds 23,480,610 shares of PetroFina (99.62% of PetroFina's capital).

## Financial position

The main elements of the Group's consolidated financial statements are summarized in the following table:

### TOTALFINAELF CONSOLIDATED ACCOUNTS

<i>(in millions of euros)</i>	2000	Excel File	
		1999 pro forma	1998 pro forma
Sales	<b>114,557</b>	75,035	61,810
Operating income from business segments <sup>(1)</sup>	<b>14,884</b>	6,354	4,696
Net operating income from business segments <sup>(1)</sup>	<b>8,035</b>	n.a.	n.a.
Net income (Group share) <sup>(1)</sup>	<b>7,637</b>	3,349	2,703
Net income (Group share) including non-recurring items	<b>6,904</b>	3,496	1,810
Earnings per share <sup>(1)</sup> on a fully diluted basis (euros)	<b>10.80</b>	4.77	3.86
Cash flow from operating activities <sup>(2)</sup>	<b>13,389</b>	7,012	7,716

<sup>(1)</sup> excluding non-recurring items

<sup>(2)</sup> includes the negative impact related to coverage of certain pension benefit plans for 494 million euros

Consolidated sales grew to 114,557 million euros, a 53% increase compared to pro forma 1999.

Operating income from business segments excluding non-recurring items rose to 14,884 million euros in 2000, a 134% increase as compared to pro forma 1999.

Net operating income from business segments excluding non-recurring items amounted to 8,035 million euros in 2000, of which 4,841 million euros in the Upstream, 2,232 million euros in the Downstream and 962 million euros in Chemicals.

Net income (Group share) rose to 6,904 million euros in 2000, a 97% increase compared to pro forma 1999. Excluding non-recurring items, the net income was 7,637 million euros, an increase of 128%.

Earnings per share excluding non-recurring items, based on 707.1 million fully-diluted weighted average number of shares, rose to 10.80 euros, an increase of 126% compared to pro forma 1999.

Cash flow from operating activities rose to 13,389 million euros from 7,012 million euros in pro forma 1999.

The non-recurring items had a negative impact on:

- operating income from business segments of 382 million euros, corresponding to restructuring charges related to the merger with Elf Aquitaine, to the application of the standard FAS 121 and to other items,
- net income of 733 million euros, corresponding to restructuring charges related to the merger with Elf Aquitaine, to impairments, to early retirement plans and to other provisions. Gains on asset sales partially offset this negative impact.

## OPERATING INCOME FROM BUSINESS SEGMENTS EXCLUDING NON-RECURRING ITEMS

(in millions of euros)	2000	1999 pro forma	Excel File
			Change
Upstream	10,113	4,119	+ 146%
Downstream	3,144	1,046	+ 201%
Chemicals	1,627	1,189	+ 37%
<b>Operating income from business segments</b>	<b>14,884</b>	<b>6,354</b>	<b>+ 134%</b>

### Overview

In 2000, gross investments for business segments were maintained at a high level of 8,155 million euros from 8,079 million euros in pro forma 1999.

- Investment for the Upstream rose by 10% to 5,639 million euros from 5,132 million euros in pro forma 1999.
- Investment for Downstream was down 9% to 1,163 million euros compared to 1,281 million euros in pro forma 1999.
- Investment for Chemicals amounted to 1,353 million euros from 1,666 million euros in pro forma 1999, a 19% decrease.

Divestments, based on selling price, generated 3,241 million euros in 2000 (including reimbursements received for long-term loans representing 606 million euros).

The return on capital employed (ROCE) for the business segments increased to 21% in 2000 from 11.5% in pro forma 1999.

TotalFinaElf bought back 11.9 million shares between September and December 2000. The fully-diluted weighted average number of shares for 2000 was 707.1 million.

The net-debt-to-equity ratio was reduced to 32.9% at year-end 2000 versus 49.7% at pro forma year-end 1999.

Return on equity (ROE) rose to 27% in 2000 from 13% in pro forma 1999.

### Parent company TOTAL FINA ELF S.A. accounts and proposed dividend

The parent company TOTAL FINA ELF S.A. reported earnings of 3,012 million euros for 2000 as compared to 916 million euros for 1999. The Board of Directors of TotalFinaElf, after closing the accounts, has decided to propose at the May 17, 2001, General Assembly a dividend of 3.3 euros per share, representing an increase of 40.4% from the previous year, to which will be added the *avoir fiscal* (French tax credit) pursuant to the terms in force. The payment date for the proposed cash dividend will be May 29, 2001.

### Outlook

The 2001 investment budget of 9.4 billion euros represents an increase from the level of 2000 investments and will give priority to Upstream growth, maintain strict financial discipline for Downstream and provide selective growth for Chemicals. The budget is split 71% for Upstream (including approximately 1 billion euros for the acquisition of gas and power assets in South America), 12% for Downstream and 17% for Chemicals.

TotalFinaElf will maintain an ongoing divestment program that is expected to average 2.5 billion euros per year.

The 2001 share repurchase program targets 2% of the Company's shares and may be adjusted depending on market parameters.

During the first months of 2001, market parameters have remained favorable, with oil prices and the dollar staying at relatively high levels. In this context, TotalFinaElf's activities continue to progress well.

## Market Risks

### Operating Risks

The financial performance of the Company is sensitive to a number of parameters, the most significant being oil prices, generally expressed in U.S. dollars (USD), and exchange rates, in particular that of the U.S. dollar versus the euro (€).

Overall, a rise in the price of crude oil has a positive effect on earnings as a result of an increase in revenues from oil and gas production. Conversely, a decline in crude oil prices reduces income. The Company estimates that an increase or decrease of USD 1 in the price of Brent crude improves or reduces respectively annual net income by around 200 million euros. The impact of changes in crude oil prices on Downstream and Chemicals operations depends upon the speed at which finished products adjust to reflect these changes. The Company estimates that an increase in TRCV Western Europe refinery margins of USD 1 per ton improves annual net income by 60 million euros.

All of the Company's activities are sensitive in varying degrees to fluctuations in the euro/U.S. dollar exchange rate. An increase or decrease of USD 0.10 per 1 euro respectively improves or reduces annual Upstream net income by approximately 490 million euros.

The Company's results, in particular the Chemicals segment, are also dependent on overall economic conditions.

### Risks Relative to Oil and Gas Markets

As part of its normal operations, the Company is a significant player in trading activities, in order to optimize revenues from crude oil production and supplies to its refineries.

In 2000, international trading activities represented a little more than 5,5 million delivered barrels of oil equivalent per day, of which 4.2 million related to crude oil. The Company's policy is not to sell its future oil and gas production for future delivery. As part of its oil trading activities, the Company uses derivative financial instruments such as futures, forwards, swaps and options in both organized and over-the-counter markets. According to the Company's policy, market risks consist of residual price differentials due to differentials in qualities, indices or delivery periods. The notional values of derivatives and their market values as of December 31, 2000 are presented in the Notes to the Consolidated Financial Statements.

In order to measure market risks relative to the price of oil and gas products, the Company uses a "value at risk" method. There is a 97.5% probability that the favorable or unfavorable price changes

would have an impact on income of less than 3,5 million euros per day on the basis of positions as of December 31, 2000.

The Company has implemented strict policies and procedures to manage and monitor these market risks.

Trading and financial controls are carried out separately, and an integrated information system enables real-time monitoring of trading activities. Position limits are approved by the Company's Executive Committee and are monitored daily. In order to ensure flexibility and maintain liquidity, hedging operations are performed with numerous independent operators, such as other oil companies, major energy users and financial institutions. The Company has established limits for each counterparty, and outstanding amounts for each counterparty are monitored on a regular basis.

### Risks Relative to Cash Management Activities

Risks relative to cash management activities and interest rate and foreign exchange financial instruments are managed in accordance, with rules set out by the Company's Management. Liquidities' positions and the management of financial instruments are centralized.

Cash management activities are organized into specialized departments for operations on markets and financial control of cash management operations. The "Financial Control" Department handles the daily monitoring of limits and positions and validates results. It values financial instruments and, if necessary, performs sensitivity analysis. The Company only uses simple derivative instruments.

### Management of Currency Exposure

The Company's policy is to systematically hedge its balance sheet currency exposure based on the functional currencies of each of the entities involved, primarily in euros, U.S. dollars, pounds sterling and Norwegian crowns.

For commercial activity, the hedging of revenues and costs in foreign currencies is typically performed using currency operations on the spot market and in some cases on the forward market. The Company rarely hedges estimated flows and, in this case, may use options.

With respect to long-term assets in foreign currencies, the Company makes every effort to reduce the associated currency exposure by using a financing in the same currency. Long-term currency debt then partially compensates the economic exposure generated. Net currency exposure is continuously monitored with limits set by the Management.

## Management of Short-Term Interest Rate Exposure and Cash

The current balance, which is primarily composed of euros and U.S. dollars, is managed with three main objectives set out by the Company's Management (to maintain maximum liquidity, to optimize revenue from investments considering existing interest rate yield curves, and to minimize the cost of borrowing), over a horizon of less than twelve months and on the basis of a daily interest rate benchmark, primarily through short-term interest rate swaps.

Given the magnitude of the current balance in euros, liquidities are invested either directly in euros or in other currencies through short-term currency swaps, without modification of the currency exposure.

## Management of Interest Rate Risk on Long-Term Debt

The Company's policy consists of incurring debt primarily at a floating rate in order to deal with significant changes in cash

flows due to external factors (oil prices and the U.S. dollar/euro exchange rate).

Exceptions to this rule must be approved by the Executive Committee.

Long-term interest rate and currency swaps can hedge debenture loans at their issuance in order to create a variable rate synthetic debt. In order to partially modify the interest rate structure of the long-term debt, the Company can also conclude long-term interest rate swaps.

## Sensitivity Analysis on Interest Rate and Foreign Exchange Risk

The table below presents the potential impact on the fair value of the current financial instruments as of December 31, 2000, of an increase or decrease of 10% in the interest rate yield curves in each of the currencies.

[Excel File](#)

(in millions of euros)

	As of December 31, 2000			
	Carrying amount	Estimated Fair Value	Change in fair value with a 10% interest rate increase (unaudited)	Change in fair value with a 10% interest rate decrease (unaudited)
<b>Balance Sheet</b>				
Debenture loans (before swaps)	7,239	6,813	(166)	172
Issue swaps*	–	403	142	(147)
Fixed-rate bank loans	587	580	(10)	11
Current portion of long-term debt (excluding current portion of capital lease obligations)	1,152	1,154	(1)	2
<b>Off-Balance Sheet</b>				
Bank guarantees	–	(13)	–	–
Swaps hedging debenture issues	–	(19)	(24)	25
Long-term interest rate and currency swaps	–	(3)	(2)	2
Long-term interest rate swaps	–	2	(3)	3
Short-term interest rate swaps	–	–	1	(1)
Short-term and long-term currency swaps	–	28	8	3
Forward exchange contracts	–	2	1	1

\* All issue swaps specifically hedge debenture loans. The fair values of these swaps may therefore be incorporated into the overall value of debenture loans.

As a large portion of the Company's assets and liabilities are denominated in USD, its sensitivity to the exchange rate of foreign currencies is primarily influenced by increases and decreases in the value of the U.S. dollar. Based on the financial statements as of December 31, 2000 and after taking into account the effect of currency swap contracts, a 10% increase in the USD against the euro increases the Company's long-term debt by approximately 741 million euros.

## Management of Counterparty Risk

The Company has established standards for which bank counterparties must previously be approved based on an assessment of the counterparty's financial soundness and its rating (Standard & Poor's, Moody's).

An overall authorized credit limit is set for each bank and is divided among the subsidiaries and the Company's Cash Management Department according to their needs.