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# Downstream

Improving profitability through merger synergies,  
growth and productivity

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Jean-Paul VETTIER - June 14, 2000 - Analyst Presentation

# Improving Downstream performance

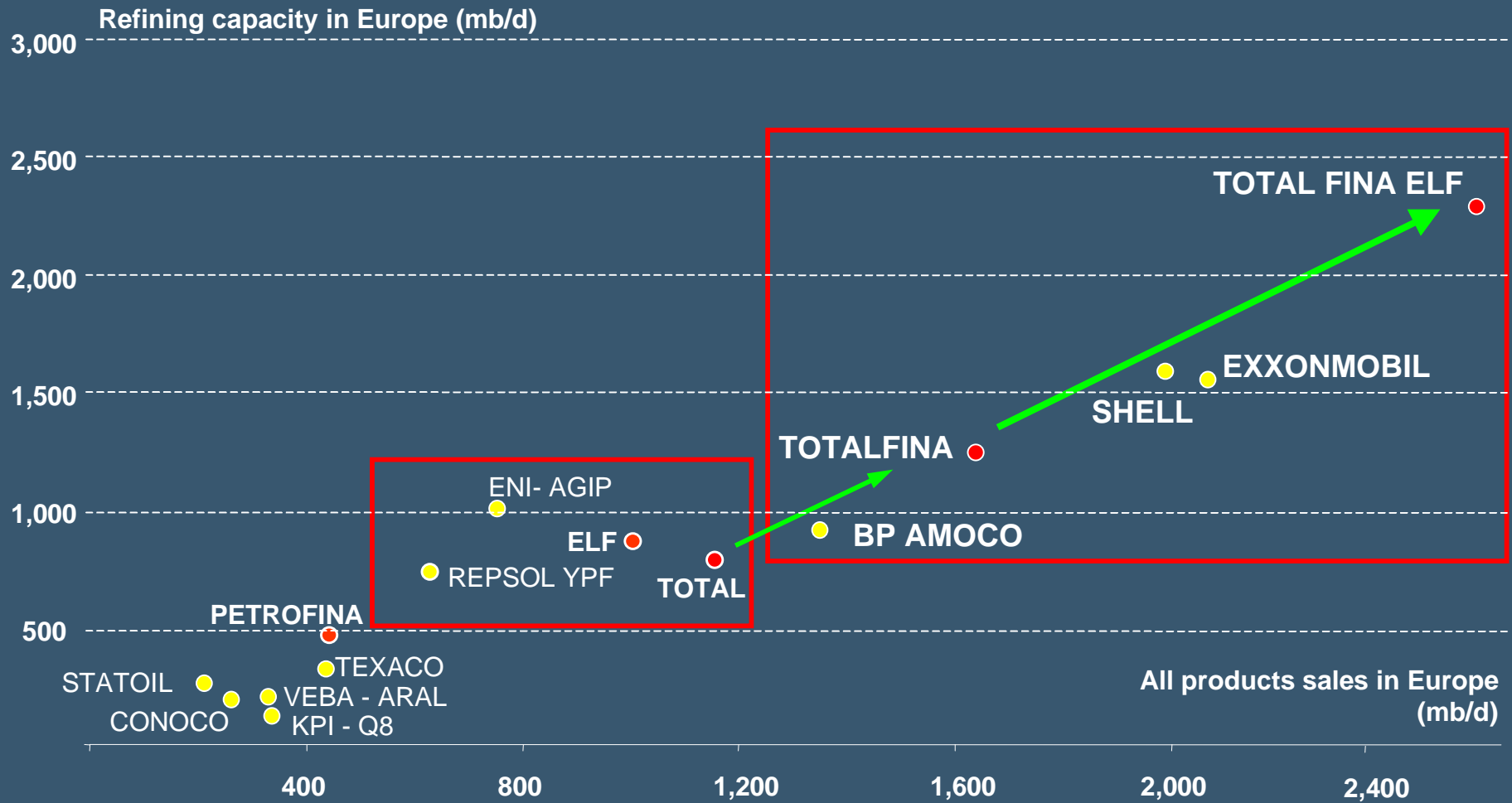
- ***Leading Downstream player in Europe and Africa***
- ***Improvement in operating income through synergies, growth and productivity***

Objective

ROCE\* at 14% by 2003

\* based on constant reference environment  $\text{€}/\text{\$}=1.1$ , Brent=15 $\text{\$/b}$ , TRCV=12 $\text{\$/t}$

# Leader in European refining and marketing



Source: Company reports and TotalFinaElf

# Optimize European refining

## Refineries and Refining Hubs



\* Cepsa

- **Integrated management of neighboring refineries**
  - Integrated supply and product exchange
  - Concentration of investments in the best performing unit
- **Ongoing integration with petrochemical units**
- **Optimization of logistics on a larger scale and niche refining opportunities**  
(eg. Donges, Feyzin)
- **Strict investment discipline**  
(less than \$300 M/y including compliance with new 2005 specifications)

Reduce breakeven point  
from \$11/t in 1999 to \$8/t in 2003

# Operational hub integration: the case of France and Benelux



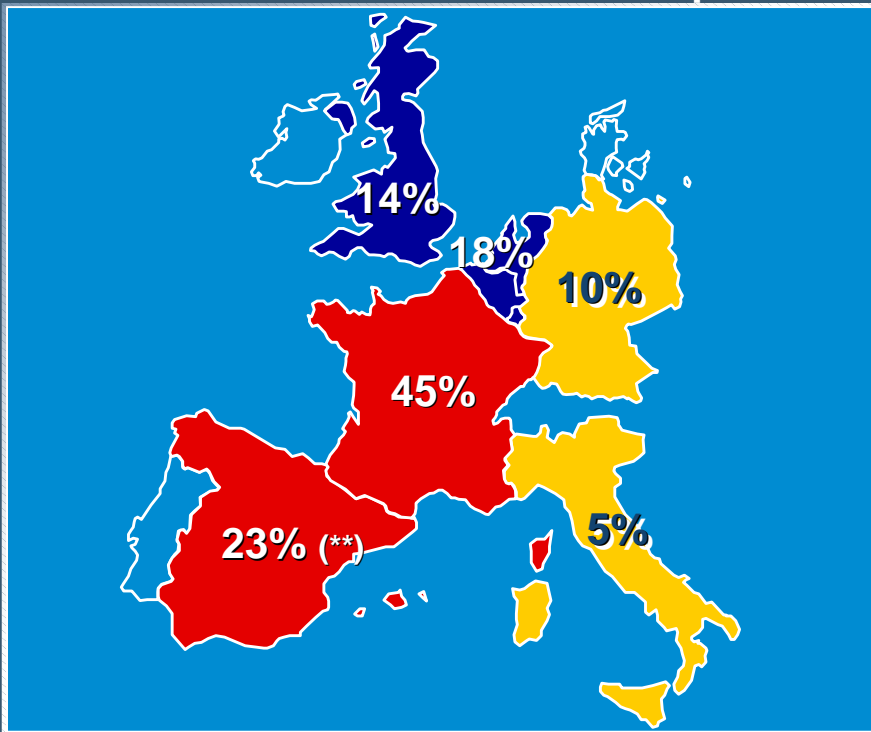
- *Existing oil, products and chemical pipelines*
- *Exchanges of feedstock and finished products*
- *Optimize geographic hinterland for each refinery*

Product Pipes: ODC- TRAPIL/LHP- SPMR- DMM  
Crude Pipes: SPSE - PLIF

# Western European Marketing (all products)

Leader in the 6 major Western European markets \*

TotalFinaElf market share for all products



\* France, Spain, Benelux, UK, Germany, Italy  
 \*\* CEPSA 100%



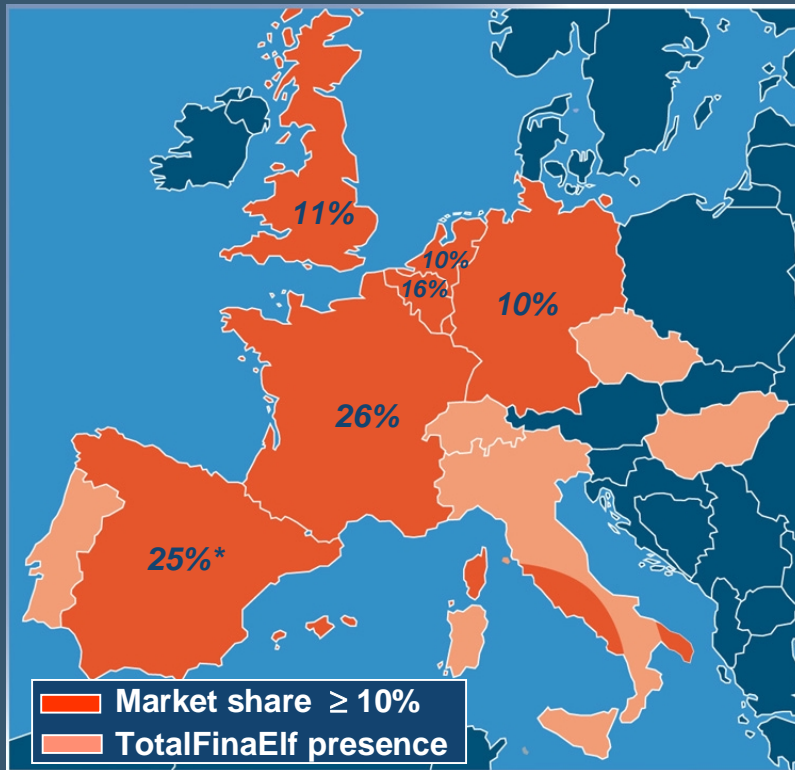
All products sales 1999 \*

TotalFinaElf	74 MT	} X 1.5
SHELL	49 MT	
EXXONMOBIL	48 MT	
BP AMOCO	48 MT	

- Capitalize on combined benefits of scale and market share
- Focus on consolidation and increased efficiency
- Ongoing capital discipline with lower required investments

# Leading player in retail Marketing in Europe

## Retail market shares in Europe

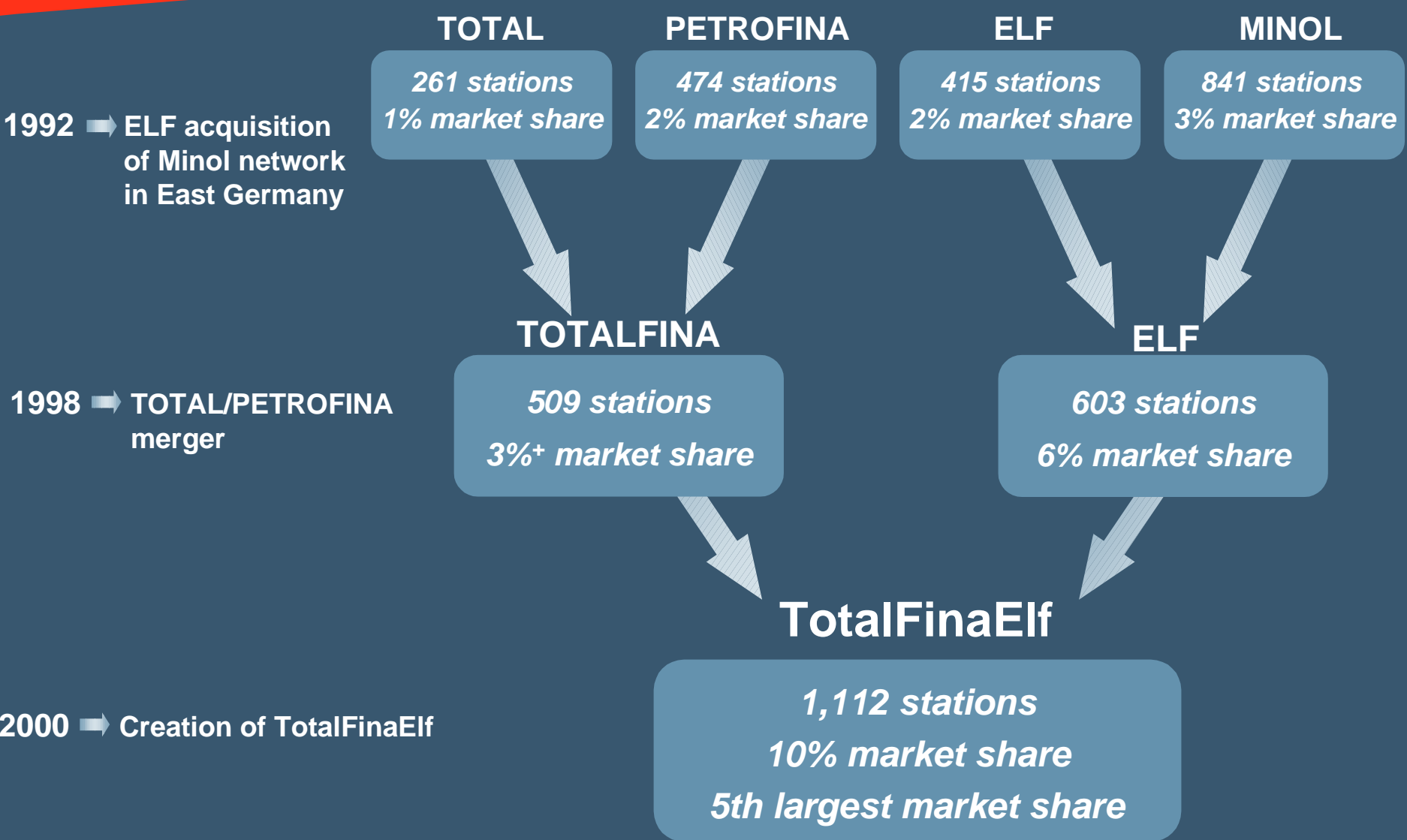


\* Cepsa 100%

- *Optimize combined retail networks*
- *Valorize brands*
- *Unification of advertising and customer loyalty programs*
- *Reduce CAPEX and consolidate retail network*

Leverage strong market position  
to improve profitability

# Consolidating sub-critical positions to achieve critical mass: eg. Germany



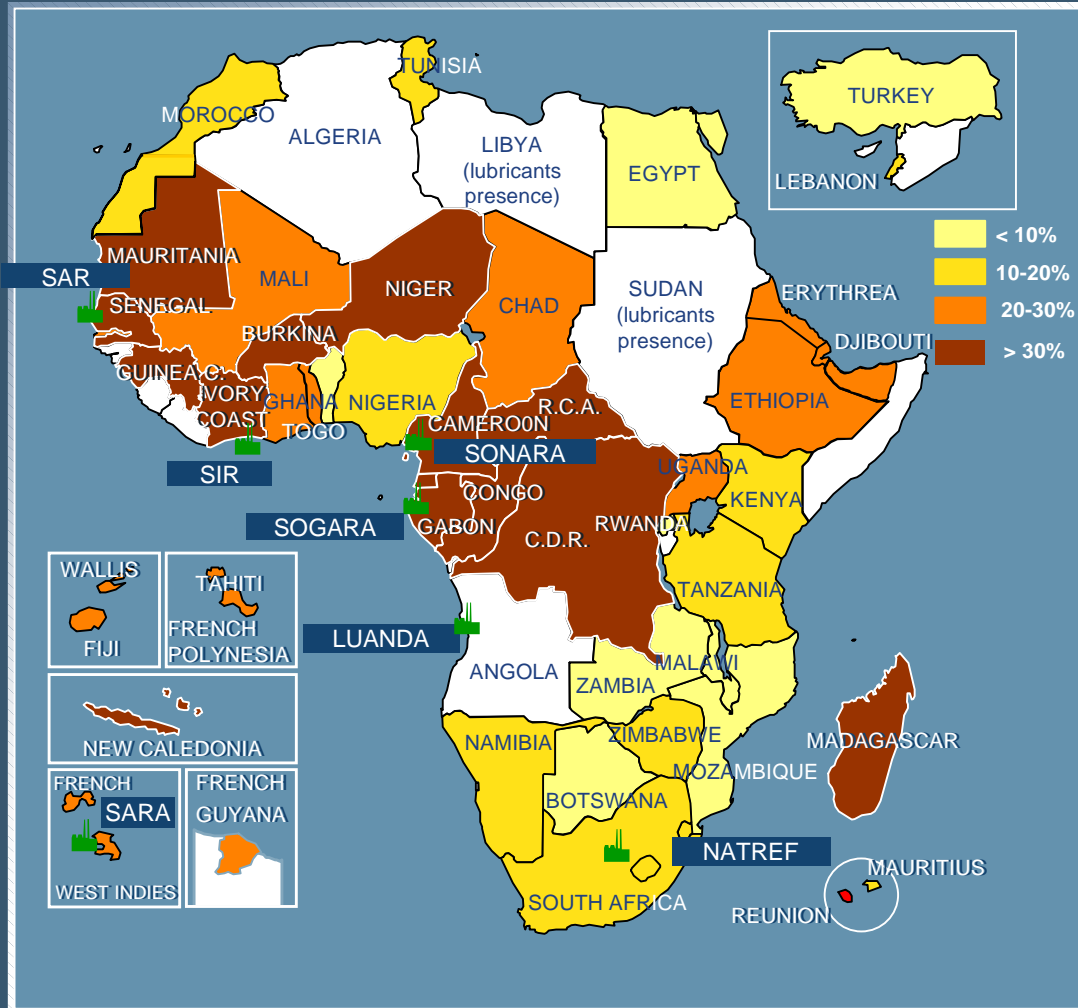
# Valorizing brands: pragmatic approach

- ***Maintain best recognized brands with large market share***
  - France: Strong brand recognition for TOTAL and ELF  
Different customer base for each brand
    - ▶ ***Maintain two brands***
  - East Germany: Strong brand recognition for ELF
- ***Converge to a unique brand to strengthen recognition in countries with low individual market share***
  - UK: All stations to adopt TOTAL brand by mid-2001
- ***Select the most valuable brand name in lubricants***
  - Automotive lubricants
  - Marine lubricants

Low required investment

# Leader in Africa, the Mediterranean Rim and the West Indies

Market share for all products



- ***A strong presence***
  - Marketing in more than 30 countries
  - Sales: 10 Mt/y (co-leader with Shell)
- ***Interests in 7 refineries***
  - 6 Mt/y capacity
  - 3rd in Africa
- ***Sustained profitable growth***

# Developing targeted positions for specialties in Asia



- ***Selected developments in marketing and specialty products (LPG, lubricants ...)***
- ***Strong positions:***
  - LPG and bitumen production & marketing in Vietnam
  - Retail network and LPG production & marketing in the Philippines
  - Retail network and specialties activities in Cambodia
- ***China***
  - 20% stake in the Wepec refinery
  - LPG, lubricants and retail developments
- ***Indian sub-continent: evaluating opportunities***

# Strong leadership in the specialties markets

## ● ***Lubricants***

- No. 3 in Europe (16% market share in automotive lubricants)
- No. 2 in Africa

## ● ***Jet Fuel***

- No.1 in Europe (17% market share)
- No.1 in Africa

## ● ***Special Fluids***

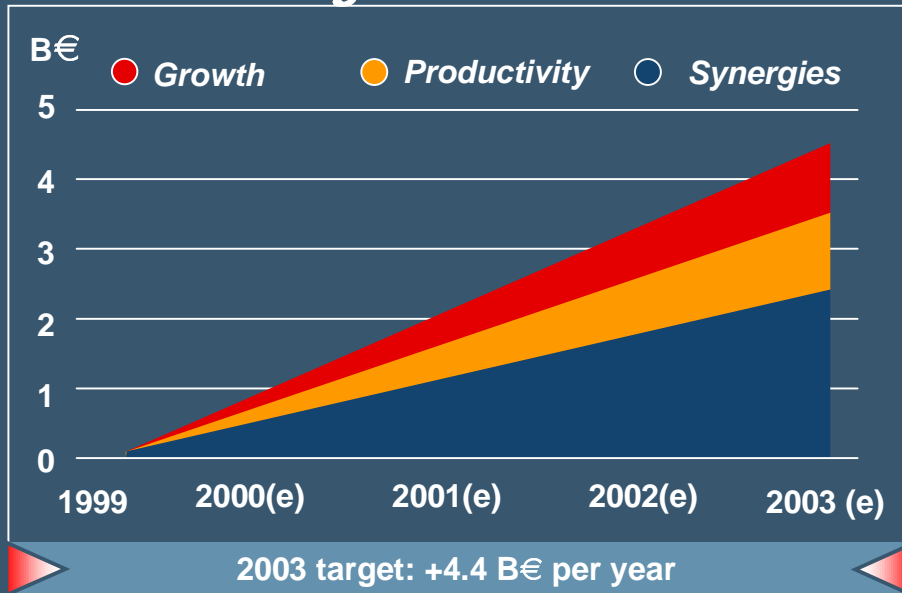
- No.1 in Europe (25% market share)
- Worldwide position in the drilling fluids market

## ● ***Bitumen***

- No.1 in Europe (22% market share)

# Downstream contribution to synergies, growth and productivity

## 2003 targets for TotalFinaElf



- **Downstream will contribute 990 M€ or 42% of targeted 2003 synergies**
- **Downstream growth and productivity improvement estimated at approx. 0.7 B€ or 1/3 of targeted 2003 growth and productivity program**

**For the Downstream, combined improvement of approx 1.7 B€ per year from 2003 represents a 150% increase from 1997/1999 avg. operating income**

# Downstream: synergies of 990 M€ per year from 2003

- ***Synergies***

<b>- Organization</b>	<b>25%</b>
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- . Reorganize headquarters
- . Reduce number of positions
- . Economies of scale (advertising, sponsoring...)

<b>- Refining</b>	<b>33%</b>
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- . Joint management
- . Integration with petrochemicals
- . Economies of scale for research and technical support

<b>- Purchasing and Information Technology</b>	<b>20%</b>
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<b>- Marketing</b>	<b>22%</b>
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- . Logistics
- . Optimization of retail network management on an expanded base
- . Standardization of advertising and customer loyalty programs

- ***Capital savings***

- 500 M€ investments avoided between now and 2003
- Recurring Capex savings of around 100 M€ per year after 2003

# Downstream synergies: rapid implementation yielding quick gains

- ***TOTAL/FINA merger:***

- 60% of synergy plans implemented by year-end 2000
- Quarterly reporting shows synergies on schedule

- ***TOTALFINA/ELF merger:***

- Reorganization plans launched in all European marketing subsidiaries
  - France: 29/30th May 2000
  - Germany: mid-June 2000
  - United Kingdom: 30th May 2000
- Concentration of Head-office tasks started
  - Germany: concentration in Berlin/Dusseldorf (15 M€ synergies by September 2000)
  - United Kingdom: concentration into Watford (20 M€ synergies by mid-2000)

# Optimization of refining: Synergies of 330 M€ / year from 2003

## More than 300 action plans

● <i>Refinery hubs</i>	<i>90 M€</i>
● <i>Best practices</i>	<i>90 M€</i>
● <i>Operational savings</i>	<i>60 M€</i>
● <i>Reduced DD&amp;A stemming from CAPEX savings</i>	<i>50 M€</i>
● <i>Integration with petrochemicals</i>	<i>20 M€</i>
● <i>Savings in research and technical support</i>	<i>20 M€</i>

# Examples of refining synergies

- ***Joint management (hub)***

- Antwerp / Vlissingen integrated supply and product exchanges delivering synergies of 25 M€ to be fully obtained by year-end 2000, including:
  - 15 M€ linked to feedstocks exchanges
  - 10 M€ linked to finished products exchanges aiming at optimizing logistics

- ***Best practices***

- 16 M€ saving from application of TOTAL catalytic cracking technology in Antwerp refinery
- 15 M€ saving for maintenance

- ***Integration with Petrochemicals***

- Gonfreville refining and petrochemicals synergies: 16 M€
  - Products, energy and components exchanges
  - Sharing of infrastructure and services

- ***- Investment savings***

- DD&A reduction of 14 M€ in Feyzin refinery (cogeneration unit)
- DD&A reduction of 8 M€ in Lindsey refinery (hyrotreatment)

# Marketing: Synergies of 440 M€ / year\* from 2003

## More than 400 action plans in Europe and Africa

- **Administrative expenses and organizational efficiency: 180 M€**
  - Consolidation of offices and restructuring
- **Retail network: 45 M€**
  - Best practices, savings in logistics, convenience stores, car wash, food purchasing, customer loyalty programs
- **Logistics: 50 M€**
  - Best practices, optimization of supply, transportation and storage
- **Wholesale marketing: 40 M€**
  - Transportation cost reduction, optimization of affiliate logistics
- **Specialties: 20 M€**
  - Optimization of logistics: blending, deliveries, storage costs...
- **Headquarters and Corporate: 60 M€**
- **Asia, Africa and West Indies: 45 M€**

\* including 220 M€ from organizational efficiency

# Synergies from purchasing and Information Technology

- ***Purchasing synergies linked to scale effect: about 50% in Refining and 50% in Marketing***
- ***Reduced purchasing costs:***
  - Transportation
  - Energy
  - Supplies
- ***e-procurement programs***
- ***Progressive standardization of information systems***

# Downstream asset management

- **Level 1**

- Asset sales linked with European Commission agreement

- **Level 2**

- Overlapping assets (redundancies linked with mergers)  
eg. logistic assets
- Non-core assets (peripheral assets)  
eg. Big Spring and US marketing



▶ **About 1.3 B€ to be divested by 2003** ◀

# European Commission commitment

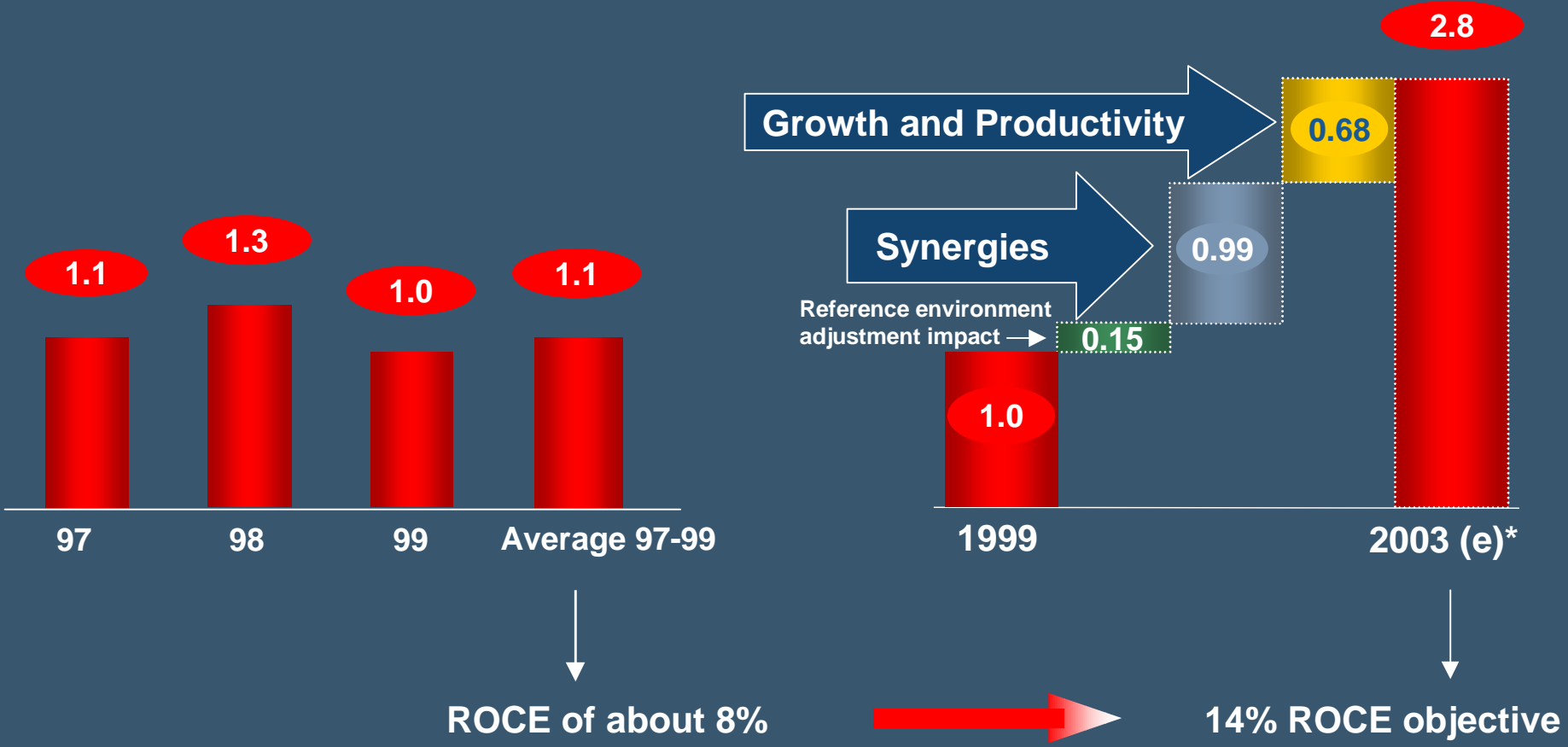
- ***Disposal of 70 service stations on freeways, balanced between brands***
- ***Complete or partial disposal of interests held in three pipelines (TRAPIL, SPMR, DMM) and 17 refined products storage depots***
- ***Divest Elf Antargaz activities in France as well as the related LPG logistics***
- ***Opening up 50% of the Lyon and Toulouse airport refueling infrastructures***



**Disposals required by the European Commission  
should represent less than 2% of Elf Aquitaine's value  
Merger benefits preserved**

# Operating income and profitability improvement

## Downstream operating income (B€)



pro forma for 1997 to 1999 figures  
 \* based on constant reference environment

# Improving profitability

- **Management discipline**

- Capital employed to be kept flat over the 2000-2005 period
- Investments
  - Refining investments constrained to \$300 M/y
  - Substantial reduction of marketing development investments in most European countries as a result of newly acquired critical mass
- Fixed costs:
  - Cost reduction identified within overall growth and productivity program

- **Ambitious synergies and productivity programs**

- Continuous improvement of operating income through:
  - Downstream share of growth and productivity program (approx. 0.7 B€ for 1999-2003)
  - Recurring synergies of 990 M€/y in Downstream from 2003

Objective

14% ROCE in Downstream by 2003\*

\*based on a constant reference environment