# TOTAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST THREE MONTHS OF 2006

***(unaudited)***

## I. ACCOUNTING POLICIES

The consolidated financial statements of TOTAL S.A. and its subsidiaries (the Group) have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union as of March 31, 2006.

The interim consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. The accounting policies applied for the consolidated financial statements as of March 31, 2006 are consistent with those followed for the consolidated financial statements as of December 31, 2005.

The preparation of financial statements in accordance with IFRS requires management to make estimates and apply assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of preparation of the financial statements and reported income and expenses for the period. Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and various other factors considered as reasonable which form the basis for assessing the book value of assets and liabilities. Actual results may differ significantly from these estimates, if different assumptions of circumstances apply.

Lastly, when a specific transaction is not dealt with in any standards or interpretations, management applies its judgment to define and apply accounting policies that will lead to relevant and reliable information, so that the financial statements:

- give a true and fair value of the Group’s financial position, financial performance and cash flows;
- reflect the substance of transactions;
- are neutral;
- are prepared on a prudent basis;
- are complete in all material aspects.

The financial statements have been prepared on a historical cost basis, except for some financial assets and liabilities that have been measured at fair value.

## II. CHANGES IN THE GROUP STRUCTURE

There were no major changes in the Group structure during the first three months of 2006.

**Notes to the consolidated financial statements for the first three months of 2006**

## III. ADJUSTING ITEMS

The financial information for each business segment is reported in accordance with the Group's internal reporting system used by the management to assess the financial performance and the allocation of resources.

Due to their particular nature or significance, some transactions qualified as "special items" are monitored at the Group level and excluded from the business segment figures. In general, special items relate to transactions that are significant, infrequent or unusual. However, in some instances, transactions such as restructuring costs or assets disposals, which are not considered to be representative of the normal course of business, may be qualified as special items although they may have occurred within prior years or are likely to occur again within the coming years.

Special items, together with the inventory effect and the Group's equity share of amortization of intangible assets related to the Sanofi-Aventis merger, form the adjusting items. The detail of these adjusting items is presented below.

The adjusted results (adjusted operating income, adjusted net operating income, adjusted net income) are defined as replacement cost results, adjusted for special items, and excluding TOTAL's equity share of amortization of intangible assets related to the Sanofi-Aventis merger.

**ADJUSTMENTS TO OPERATING INCOME**

| *(in millions of euros)* | | Upstream | Downstream | Chemicals | Corporate | Total |
|---|---|---|---|---|---|---|
| **First quarter 2006** | Inventory valuation effect | - | 373 | - | - | 373 |
| | Restructuring charges | - | - | - | - | - |
| | Asset impairment charges | - | - | - | - | - |
| | Other items | - | - | (5) | - | (5) |
| **Total** | | **-** | **373** | **(5)** | **-** | **368** |
| **First quarter 2005** | Inventory valuation effect | - | 652 | 70 | - | 722 |
| | Restructuring charges | - | - | - | - | - |
| | Asset impairment charges | - | - | - | - | - |
| | Other items | - | - | - | - | - |
| **Total** | | **-** | **652** | **70** | **-** | **722** |

**ADJUSTMENTS TO NET INCOME**

| *(in millions of euros)* | | Upstream | Downstream | Chemicals | Corporate | Total |
|---|---|---|---|---|---|---|
| **First quarter 2006** | Inventory valuation effect | - | 279 | 1 | - | 280 |
| | TOTAL's equity share of special items recorded by Sanofi-Aventis | - | - | - | 2 | 2 |
| | TOTAL's equity share of adjustments related to the Sanofi-Aventis merger | - | - | - | (83) | (83) |
| | Restructuring charges | - | - | (15) | - | (15) |
| | Asset impairment charges | - | - | - | - | - |
| | Gains (losses) on sales of assets | 130 | - | - | - | 130 |
| | Other items | - | - | (7) | - | (7) |
| **Total** | | **130** | **279** | **(21)** | **(81)** | **307** |
| **First quarter 2005** | Inventory valuation effect | - | 449 | 47 | - | 496 |
| | TOTAL's equity share of special items recorded by Sanofi-Aventis | - | - | - | (42) | (42) |
| | TOTAL's equity share of adjustments related to the Sanofi-Aventis merger | - | - | - | (82) | (82) |
| | Restructuring charges | - | - | (83) | - | (83) |
| | Asset impairment charges | - | - | - | - | - |
| | Gains (losses) on sales of assets | - | - | - | - | - |
| | Other items | **-** | **449** | **(36)** | **(124)** | **289** |

## IV. SHAREHOLDERS' EQUITY

**Treasury shares (TOTAL shares held by TOTAL S.A.)**

As of March 31, 2006 TOTAL S.A. held 14,163,583 of its own shares, representing 2.29% of its share capital, detailed as follows:

– 7,638,583 shares allocated to cover TOTAL share purchase option plans and restricted share grants for Group employees;

– 6,525,000 shares purchased for cancellation, of which 1,025,000 shares were purchased in November and December 2005 and 5,500,000 during the first quarter of 2006, pursuant to the authorization granted by the Shareholders' Meeting held on May 17, 2005.

These 14,163,583 shares are deducted from the consolidated shareholders' equity.

**TOTAL shares held by Group subsidiaries**

As of March 31, 2006 TOTAL S.A. held indirectly, through its subsidiaries 25,082,817 of its own shares, representing 4.06 % of its share capital, detailed as follow:

- 505,918 shares held by a consolidated subsidiary, TOTAL Nucléaire, indirectly controlled by TOTAL S.A. These shares were initially acquired in order to realize short-term cash investments.

- 24,576,899 shares held by subsidiaries of Elf Aquitaine (Financière Valorgest, Sogapar and Fingestval).

These 25,082,817 shares are deducted from the consolidated shareholders' equity.

## V. LONG-TERM DEBT

The Group has issued debenture loans through its subsidiary TOTAL Capital during the first three months of 2006:

– Debenture 4.125% 2006-2012 (100 million CAD)
– Debenture 5.625% 2006-2012 (100 million AUD)
– Debenture 2.375% 2006-2016 (100 million CHF)
– Debenture 3.25% 2006-2012 (100 million EUR)
– Debenture 2.375% 2006-2016 (100 million CHF)
– Debenture 5% 2006-2007 (100 million GBP)

The Group has reimbursed debenture loans during the three first months of 2006:

– Debenture 3.5% 2000-2006 (200 million CHF)

In the context of its active cash management, the Group may increase temporarily its short-term borrowings, particularly in the form of commercial paper. The short-term borrowings and the cash and cash equivalents resulting from this cash management in the quarterly financial statements are not necessarily representative of a steady position.

## VI. OTHER RISKS AND CONTINGENT LIABILITIES

In 2005, the Group was informed by the Venezuelan government of a change in the method for calculating royalties. The Group also received a notice of additional tax assessment on the corporate income tax for the years 2001-2004. The Group believes that it has complied with the applicable fiscal and legal provisions. The Group has paid a higher amount of royalties with reservations. The tax assessment is currently being reviewed.

In addition the Venezuelan government requested that, before April 1, 2006, the Jusepin contract be revised and made similar requests to all companies operating under this type of contract. On March 31, 2006 TOTAL indicated that the proposed new terms and conditions resulting from discussions up to that date were not considered to be acceptable but that, nevertheless, TOTAL remained ready to hold further discussions. Jusepin field operations have been conducted by the state-owned Petroleos de Venezuela S.A. (PDVSA) since April 1, 2006.

## TOTAL

### Notes to the consolidated financial statements for the first three months of 2006

# VII. INFORMATION BY BUSINESS SEGMENT

**Amounts in millions of euros**

| 1st quarter 2006 | Upstream | Downstream | Chemicals | Corporate | Intercompany | Total |
|---|---|---|---|---|---|---|
| Non-Group sales | 5,714 | 27,692 | 6,191 | 8 | | 39,605 |
| Intersegment sales | 5,400 | 1,335 | 283 | 43 | (7,061) | - |
| Excise taxes | - | (4,607) | - | - | | (4,607) |
| **Revenues from sales** | **11,114** | **24,420** | **6,474** | **51** | **(7,061)** | **34,998** |
| Operating expenses | (4,680) | (22,931) | (5,986) | (140) | 7,061 | (26,676) |
| Depreciation, depletion, and amortization of tangible assets and leasehold rights | (833) | (260) | (183) | (9) | | (1,285) |
| **Operating income** | **5,601** | **1,229** | **305** | **(98)** | **-** | **7,037** |
| Equity in income (loss) of affiliates and other items | 383 | 74 | (20) | 201 | | 638 |
| Tax on net operating income | (3,454) | (373) | (87) | 53 | | (3,861) |
| **Net operating income** | **2,530** | **930** | **198** | **156** | | **3,814** |
| Net cost of net debt | | | | | | (43) |
| Minority interests and dividends on subsidiaries' redeemable preferred shares | | | | | | (88) |
| **Net income** | | | | | | **3,683** |

| 1st quarter 2006 (adjustments) (*) | Upstream | Downstream | Chemicals | Corporate | Intercompany | Total |
|---|---|---|---|---|---|---|
| Non-Group sales | - | - | - | - | - | - |
| Intersegment sales | - | - | - | - | - | - |
| Excise taxes | - | - | - | - | - | - |
| **Revenues from sales** | | | | | | |
| Operating expenses | - | 373 | (5) | - | | 368 |
| Depreciation, depletion, and amortization of tangible assets and leasehold rights | - | - | - | - | | - |
| **Operating income (1)** | **-** | **373** | **(5)** | **-** | | **368** |
| Equity in income (loss) of affiliates and other items (2) | 195 | 18 | (28) | (81) | | 104 |
| Tax on net operating income | (65) | (111) | 12 | - | | (164) |
| **Net operating income (1)** | **130** | **280** | **(21)** | **(81)** | | **308** |
| Net cost of net debt | | | | | | - |
| Minority interests and dividends on subsidiaries' redeemable preferred shares | | | | | | (1) |
| **Net income** | | | | | | **307** |

(*) Adjustments include special items, inventory valuation effect and equity share of amortization of intangible assets related to the Sanofi-Aventis merger

| | | | | |
|---|---|---|---|---|
| (1) Of which inventory valuation effect | | | | |
| On operating income | - | 373 | - | - |
| On net operating income | - | 280 | 1 | - |
| (2) Of which equity share of amortization of intangible assets related to the Sanofi-Aventis merger | - | - | - | (83) |

| 1st quarter 2006 (adjusted) | Upstream | Downstream | Chemicals | Corporate | Intercompany | Total |
|---|---|---|---|---|---|---|
| Non-Group sales | 5,714 | 27,692 | 6,191 | 8 | | 39,605 |
| Intersegment sales | 5,400 | 1,335 | 283 | 43 | (7,061) | - |
| Excise taxes | - | (4,607) | - | - | | (4,607) |
| **Revenues from sales** | **11,114** | **24,420** | **6,474** | **51** | **(7,061)** | **34,998** |
| Operating expenses | (4,680) | (23,304) | (5,981) | (140) | 7,061 | (27,044) |
| Depreciation, depletion, and amortization of tangible assets and leasehold rights | (833) | (260) | (183) | (9) | | (1,285) |
| **Operating income** | **5,601** | **856** | **310** | **(98)** | | **6,669** |
| Equity in income (loss) of affiliates and other items | 188 | 56 | 8 | 282 | | 534 |
| Tax on net operating income | (3,389) | (262) | (99) | 53 | | (3,697) |
| **Net operating income** | **2,400** | **650** | **219** | **237** | | **3,506** |
| Net cost of net debt | | | | | | (43) |
| Minority interests and dividends on subsidiaries' redeemable preferred shares | | | | | | (87) |
| **Net income** | | | | | | **3,376** |

## Notes to the consolidated financial statements for the first three months of 2006

**Amounts in millions of euros**

| 1st quarter 2005 | Upstream | Downstream | Chemicals | Corporate | Intercompany | Total |
|---|---|---|---|---|---|---|
| Non-Group sales | 4,805 | 21,416 | 5,518 | - | | 31,739 |
| Intersegment sales | 4,226 | 1,029 | 352 | 58 | (5,665) | - |
| Excise taxes | - | (5,051) | - | - | | (5,051) |
| **Revenues from sales** | **9,031** | **17,394** | **5,870** | **58** | **(5,665)** | **26,688** |
| Operating expenses | (4,266) | (15,600) | (5,069) | (114) | 5,665 | (19,384) |
| Depreciation, depletion, and amortization of tangible assets and leasehold rights | (755) | (251) | (176) | (9) | | (1,191) |
| **Operating income** | **4,010** | **1,543** | **625** | **(65)** | | **6,113** |
| Equity in income (loss) of affiliates and other items | 77 | 115 | (106) | 63 | | 149 |
| Tax on net operating income | (2,279) | (530) | (164) | 51 | | (2,922) |
| **Net operating income** | **1,808** | **1,128** | **355** | **49** | | **3,340** |
| Net cost of net debt | | | | | | (47) |
| Minority interests and dividends on subsidiaries' redeemable preferred shares | | | | | | (85) |
| **Net income** | | | | | | **3,208** |

| 1st quarter 2005 (adjustments) (*) | Upstream | Downstream | Chemicals | Corporate | Intercompany | Total |
|---|---|---|---|---|---|---|
| Non-Group sales | | | | | | |
| Intersegment sales | | | | | | |
| Excise taxes | | | | | | |
| **Revenues from sales** | | | | | | |
| Operating expenses | - | 652 | 70 | - | | 722 |
| Depreciation, depletion, and amortization of tangible assets and leasehold rights | - | - | - | - | | - |
| **Operating income (1)** | **-** | **652** | **70** | **-** | | **722** |
| Equity in income (loss) of affiliates and other items (2) | - | 13 | (125) | (124) | | (236) |
| Tax on net operating income | - | (215) | 19 | - | | (196) |
| **Net operating income (1)** | **-** | **450** | **(36)** | **(124)** | | **290** |
| Net cost of net debt | | | | | | - |
| Minority interests and dividends on subsidiaries' redeemable preferred shares | | | | | | (1) |
| **Net income** | | | | | | **289** |

(*) Adjustments include special items, inventory valuation effect and equity share of amortization of intangible assets related to the Sanofi-Aventis merger

| | Upstream | Downstream | Chemicals | Corporate |
|---|---|---|---|---|
| (1) Of which inventory valuation effect | | | | |
| On operating income | - | 652 | 70 | - |
| On net operating income | - | 450 | 47 | - |
| (2) Of which equity share of amortization of intangible assets related to the Sanofi-Aventis merger | - | - | - | (82) |

| 1st quarter 2005 (adjusted) | Upstream | Downstream | Chemicals | Corporate | Intercompany | Total |
|---|---|---|---|---|---|---|
| Non-Group sales | 4,805 | 21,416 | 5,518 | - | | 31,739 |
| Intersegment sales | 4,226 | 1,029 | 352 | 58 | (5,665) | - |
| Excise taxes | - | (5,051) | - | - | | (5,051) |
| **Revenues from sales** | **9,031** | **17,394** | **5,870** | **58** | **(5,665)** | **26,688** |
| Operating expenses | (4,266) | (16,252) | (5,139) | (114) | 5,665 | (20,106) |
| Depreciation, depletion, and amortization of tangible assets and leasehold rights | (755) | (251) | (176) | (9) | | (1,191) |
| **Operating income** | **4,010** | **891** | **555** | **(65)** | | **5,391** |
| Equity in income (loss) of affiliates and other items | 77 | 102 | 19 | 187 | | 385 |
| Tax on net operating income | (2,279) | (315) | (183) | 51 | | (2,726) |
| **Net operating income** | **1,808** | **678** | **391** | **173** | | **3,050** |
| Net cost of net debt | | | | | | (47) |
| Minority interests and dividends on subsidiaries' redeemable preferred shares | | | | | | (84) |
| **Net income** | | | | | | **2,919** |