

# Chairman's Message

2005 was a very good year for TOTAL. Sharply higher oil and gas prices combined with stronger refining margins created favorable market conditions for the petroleum industry. In this promising context, the Group's adjusted net income reached 12 billion euros, a 31% increase compared to last year.

TOTAL achieved one of the best performances among the oil majors, both in terms of the increase in earnings per share, with a year-on-year increase of 35%, and in terms of return on capital employed, which reached 27% in 2005. These results show that the Group is capable of taking full advantage of the current environment. Our goal is to continue to pursue our strategy of profitable growth, under which our business continues to expand while respecting the environment and taking into account the interests of present and future generations.

The Group has taken concrete steps in terms of sustainable development. These steps are set forth in our fourth Corporate Social Responsibility Report, which also presents our goals and achievements. This report has become, to my great satisfaction, a primary tool for the dialogue that TOTAL wishes to maintain with its stakeholders.

At all levels of the Group, we are aware that our business, given the nature of the products concerned, involves environmental and industrial safety risks. Our task is to find ways to continually improve our risk management so that our operations can benefit communities without exposing them to the risk of accidents. The Group will continue to make individual safety, respect for the environment and the use of best operating practices our absolute priorities.

Among TOTAL's business segments, the Upstream segment demonstrated the strongest growth in earnings last year due to the favorable trends in the oil and gas environment. The Upstream segment's adjusted net operating income increased by 37% to 8 billion euros. Additional exploration success, the launch of new projects and the acquisition of Deer Creek Energy Ltd. in Canada made important contributions to increasing the Group's proved and probable reserves to the equivalent of 20 billion barrels of oil at the end of 2005, which represents approximately 22 years of production at our current rate.

Several large projects which will require significant management and technological resources should allow us to continue to increase our oil and gas production by an annual average of 4% through 2010.

Among the highlights of the Group's natural gas business in 2005 were successful developments in its liquefied natural gas activities: the launch of the Yemen LNG project, where the Group is positioned as a leader on all of the segments of the chain; the agreement in principle for entry into the Qatargas 2 project; and new steps forward for the Pars LNG project.

Results from the Downstream segment, which increased by more than 20%, took advantage of the favourable conditions for the industry. Important refining events in 2005 included the temporary shut down of the Port Arthur refinery due to the impact of Hurricane Rita and, in Europe, the sale of the Group's interest in the Reichstett refinery in France and the acquisition of an additional interest in the Rome refinery in Italy. Construction of the distillate hydrocracker at the Normandy refinery in France continued, with operation of this unit scheduled to begin in the summer of 2006. TOTAL strengthened its marketing position in Africa through the acquisition of storage and marketing assets in 14 countries, becoming the leading marketer of petroleum products on this continent. In Asia, TOTAL took an important step in its marketing activities in China through its undertakings in new projects with Sinochem. The Group also continued to develop its network in the Philippines and in Pakistan.

Thanks to more favorable market conditions, results from the Chemicals segment increased by 25%. All sectors (Base Chemicals, Specialties and Arkema) improved their results. We should continue to improve the performance of our businesses through fixed costs reduction, productivity and selective investments focused on value-creating projects.

The necessary actions and organization changes for Arkema to become an independent company have been undertaken. The spin off is planned for May 2006, after the May 12 shareholders' meeting which will vote on the project.

TOTAL intends to pursue and harmonize both the search for growth opportunities and a dynamic dividend distribution policy based on the profitability of its businesses.

The pursuit of the first of these goals requires a significant investment program, which is based on the over-arching principles that TOTAL has pursued year after year: increase our oil and gas production; extend our natural gas participation; develop our Downstream segment on targeted markets while adapting its refining system in Europe and the United States to developments in these markets; and develop our chemicals portfolio, particularly in specialty chemicals and in petrochemicals in Asia. Last year, investments amounted \$13.9 billion dollars, a 26% increase over 2004. For each of the years until 2010, the level of investment should be comparable with that in 2005.

The dynamic dividend distribution policy is tied to cash flows which are increasing as a result of our investment decisions and our rigorous management. This policy also benefits from the Group's share buyback, which contributes to increasing the amount available for distribution per share. For 2005, the Board is able to propose that the Shareholders' Meeting approve the distribution of a dividend of 6.48 euros per share, a 20% increase compared to the previous year. The average annual increase in the dividend over the past five years would then amount to 14%.

This same Meeting will be also be called upon to vote on a four-to-one stock split.

TOTAL has the qualities necessary to remain one of the most dynamic and best performing players in the global petroleum industry:

- expected medium-term oil and gas production growth more than twice than that of demand, which reinforces, year after year, its position;
- technological expertise which can be seen in diverse areas, including exploration success, mastery of deep-offshore

and high-temperature / high- pressure field operations, production of extra-heavy oil and its transformation into lighter products, or introducing high-performance and environmentally friendly products;

- prudent, consistent financial strategy, illustrated by a net-debt-to-equity ratio of 32% at the end of 2005;
- high-quality teams that have shown their ability to adapt to change and successfully complete ambitious projects.

Personally, I have full confidence in its future.



Thierry Desmarest



# Questions for the Chairman

## What are TOTAL's strengths in each of its business segments?

One of TOTAL's major assets is the strong growth potential of its Exploration & Production activities, and the visibility that goes with it. Our portfolio of projects, which are well diversified and cover most of the world's main oil and gas basins, allows us to be confident of the Group's ability to increase its oil and natural gas production by an average of nearly 4% per year between now and 2010, which is better than the projected demand increase. Our production costs are also among the most competitive.

In the Refining & Marketing segment, over the last few years TOTAL has managed to make significant productivity gains and to reduce its costs. So the Group is now well placed to capitalize on a more favourable business environment, and particularly the improved refining margins. Furthermore, TOTAL continues to benefit from the rapid and profitable expansion of its service-station network in Africa and around the Mediterranean Rim as well as its sales of specialty products, particularly LPG and lubricants. A sustained program of investments between now and 2010 should allow us to continue to adapt our refining capacity to changing market needs, to consolidate TOTAL's leading position in its long-standing markets and to expand in targeted areas.

TOTAL's Chemicals segment has now been comprehensively restructured. With its new focus on petrochemicals and specialties, Chemicals will be pursuing growth in both these areas, with particular emphasis on the Asian market, and it should make a significant contribution to the Group's financial results.

## Why has TOTAL chosen to base its future development on organic growth rather than acquisitions?

Our various teams work well and have now demonstrated quite clearly that organic growth creates more value. But this does not mean we are limiting our growth options. From time to time opportunities rise, such as with Deer Creek in Canada, and we are ready to seize them. But in the case of major rapprochements, we feel that at least two conditions are necessary for success: firstly we must be able to capture major synergies, and secondly there must be cultural affinities to ensure that the new entity is fully coherent. We have made a success of the mergers with PetroFina and then Elf, but I cannot see any other possible merger at present that would fulfil the necessary conditions.

## Why has TOTAL now decided to spin off its Arkema activities?

TOTAL is the only international oil and gas group with a Chemicals segment that accounts for more than 25% of capital employed. In addition, TOTAL's Chemicals segment includes a wide range of products, whereas the Group's main competitors have limited their activities in this area to just a few major products, mainly in petrochemicals.

The reorganization of TOTAL's Chemicals businesses, which was begun in 2004 and continued during 2005, was intended, in a first stage, to restructure a very diverse portfolio of activities into three main sectors: Petrochemicals, Specialties and Arkema.

The next stage in this reorganization is the spin-off of the activities grouped together as Arkema. This move will allow TOTAL to focus on its oil and gas activities as well as petrochemicals and specialty chemicals. When the operation is completed, TOTAL will have a spread of activities that is much more manageable and more like the business scope of our main competitors.

## Do you think Arkema has a bright future?

Arkema represents a coherent industrial project, built around three balanced and complementary segments: Vinyl Products, Industrial Chemicals and Performance Products. As a company with sales of 5.6 billion euros in 2005, more than 18,000 employees as well as 90 factories and 6 research centers in 40 countries worldwide, Arkema aims to be a major player in the chemicals industry. The company boasts a solid financial structure, first-rate market positions and world-renowned brands as well as innovative Research & Development teams. It also has the simplified, flexible organization it needs to get closer to its customers and to be more responsive in its decision-making. In short, it has everything it needs to be competitive and play a major role in the consolidation of the chemicals industry. I have full confidence in Arkema's new team of managers and am sure the company has a very bright future.

## How is TOTAL contributing to the development of renewable energies?

TOTAL's efforts to expand its activities in the field of renewable energies are in line with our desire to prepare for the future of energy and to foster sustainable development.

In solar energy, the Group plans to increase five-fold its production of photovoltaic cells. We will be building a new solar-panel factory in the French city of Toulouse, and we are also involved in decentralized rural electrification programmes in Mali, South Africa and Morocco.

As regards biofuels, TOTAL already produces 170,000 metric tons per year of ETBE and our long-term diester supply contracts will be increasing strongly in the coming years, in conjunction with the food-processing industry. The Group is also launching research programs on second-generation biofuels. Within a few years, industry should be able to produce biofuels from a wide variety of biomass sources.

TOTAL is also interested in wind power and we have already set up a first wind farm at our Dunkirk refinery site. The Group has also been selected to take part in a 90-megawatt project in the Aveyron region, which will be the biggest wind farm in France. The authorities are also looking at a proposal to set up another wind farm the same size off the coast from Dunkirk.

