Management report from the Board of Directors

Overview of TOTAL's fiscal year

The Group's three business segments are:
- ➔I the Upstream segment, which includes exploration, hydrocarbon production, gas, electricity, and other forms of energy;
- ➔I the Downstream segment, which includes refining, petroleum product marketing and distribution, specialty products, and the trading and shipping of crude oil and products;
- ➔I the Chemicals segment, which includes Base chemicals & Polymers, Intermediates & Performance Polymers and Specialties.

In 2003, the self-help programs that were launched in 2000 following the mergers of TOTAL, PetroFina and Elf were completed. The ambitious objectives for growth, synergies and productivity have been achieved thanks to the hard work of all the employees of TOTAL.

For 2003, 5% production growth, the implementation of productivity programs and the continued share buybacks drove earnings per share adjusted for special items to a record high of 11.56 euros. Expressed in dollars, earnings per share rose to 13.08, reflecting an increase of 47% for 2003 compared to 2002.

TOTAL has set new performance objectives for the years 2004-2008, consisting of a 4% average annual growth rate for hydrocarbon production while continuing to improve returns for the Group in a constant environment.

Full-year 2003 results

2003 oil environment was more favorable than in 2002 : the Brent price increased by 15% to 28.8 $/b from 25.0 $/b and the European refining margin (TRCV) increased strongly to 20.9 $/t from 8.0 $/t in 2002.
The dollar decreased in 2003 by 16% relative to the euro : the average exchange rate moved to 1.13 from 0.95 in 2002.
Besides, the global environment was tougher for Chemicals in 2003 than a year ago due to a persistent unfavorable economic context in Europe and the weak dollar.

Sales rose by 2% to 104,652 million euros (M€) in 2003 from 102,540 M€ in 2002.

Operating income from the business segments adjusted for special items increased by 18% to 13,004 M€ in 2003 from 10,995 M€ in 2002.

The 2.0 billion euros (B€) increase in 2003 versus 2002 operating income from the business segments adjusted for special items is due to +1.1 B€ of positive impacts from self-help programs (growth: +0.6 B€; synergies and productivity: +0.5 B€), +0.8 B€ for the generally more favorable environment; +0.2 B€ related to the lower level of refinery turna-rounds; and -0.1 B€ for the changes in the Chemicals portfolio.

The +0.8 B€ impact from the environment on operating income breaks down as follows:
- ➔I + 1.9 B€ from higher hydrocarbon prices;
- ➔I + 1.3 B€ from higher refining margins;
- ➔I - 2.0 B€ from the weaker dollar relative to the euro;
- ➔I - 0.4 B€ from the further degradation of the Chemicals environment.

The impact of special items on 2003 operating income from the business segments was a negative 25 M€, made up mainly of asset impairments in the Chemicals segment.
In 2002, special items had a negative impact of 659 M€ related primarily to write-downs of assets in Argentina.

Net operating income from the business segments adjusted for special items increased by 19% to 6,973 M€ in 2003 from 5,868 M€ in 2002.

Net income adjusted for special items increased by 17% to 7,344 M€ in 2003 from 6,260 M€ in 2002.

Reported net income was 7,025 M€ in 2003 compared to 5,941 M€ in 2002.

Special items had a negative impact of 319 M€ on 2003 net income, made up mainly of restructuring charges and a provision in the Chemicals segment. Special items had a negative impact of 319 M€ on 2002 net income, made up mainly of write-downs of assets in Argentina, changes in the UK tax system, and gains on the sale of financial participations, notably Sanofi-Synthélabo shares.

For 2003, earnings per share adjusted for special items, based on 635.1 million fully-diluted weighted-average shares, was 11.56 euros, an increase of 23% compared to the 2002 earnings per share adjusted for special items of 9.40 euros. Earnings per share increased by more than net income, reflecting the accretive impact of the share buyback program.

Cash flow from operating activities increased by 13% to 12,487 M€ in 2003 from 11,006 M€ in 2002. Excluding 719 M€ of disbursements covered by a previously established reserve related to the Toulouse-AZF plant, 2003 cash flow from operating activities increased by 20%.

In 2003, investments were 7,728 M€, a decrease of 11% compared to 2002. Expressed in dollars, investments increased by 6%.

Divestments, based on selling price, were 1,878 M€, including the sale of the paints business.

Net cash flow [(1)] was 6,637 M€ in 2003 compared to 4,662 M€ in 2002.

The return on average capital employed (ROACE) for Total was 19% in 2003, the highest level among its major competitors.

The return on equity in 2003 was 26% compared to 20% in 2002.

(1) Net cash flow = cash flow from operating activities + divestments - investments

Market environment	2003	2002	%
€/$	1.13	0.95	–16% *
Brent ($/b)	28.8	25.0	+15%
European refining margin TRCV ($/t)	20.9	8.0	+161%

** Change in the dollar versus the euro.*

Number of shares (millions)	2003	2002	%
Fully-diluted weighted average shares	635.1	666.1	–5%
Fully-diluted shares at year-end	625.1	655.0	–5%

Consolidated accounts – TOTAL (in millions of euros)	2003	2002	%
Sales	104,652	102,540	+2%
Operating income from the business segments adjusted for special items	13,004	10,995	+18%
Net operating income from the business segments adjusted for special items	6,973	5,868	+19%
Net income adjusted for special items	7,344	6,260	+17%
Net income	7,025	5,941	+18%
Earnings per share (euros) adjusted for special items	11.56	9.40	+23%
Dividend (euros/share)	4.70 *	4.10	+15%
Investments **	7,728	8,657	–11%
Divestments *** based on selling price	1,878	2,313	–19%
Cash flow from operating activities	12,487 ****	11,006	+13%

* *Subject to approval at the May 14, 2004 General Meeting of Shareholders.*
** *Including increases in long-term loans.*
*** *Including repayments of long-term loans.*
**** *Includes disbursements of 719 M€ for the full year 2003 covered by a previously established reserve related to the Toulouse-AZF plant.*

Impact of special items (in millions of euros)	2003	2002
Impact of special items on operating income		
Restructuring charges	–1	–29
Impairments	–17	–659 *
Other	–7	+29
Total	**–25**	**–659**
Impact of special items on net income		
Gains on asset sales	+22	+626
Toulouse-AZF plant impact	0	–61
Restructuring charges and early retirement plans	–144	–158
Impairments	–11	–467 **
Other	–186 ***	–259
Total	**–319**	**–319**

* *Includes -500 M€ related to the impact of the situation in Argentina.*
** *Includes -310 M€ related to the impact of the situation in Argentina.*
*** *Includes -155 M€ provision for Chemicals.*

Upstream

Upstream – key figures	2003	2002	%
Production (kboe/d)	2,539	2,416	+5%
• Liquids (kb/d)	1,661	1,589	+5%
• Gas (Mcf/d)	4,786	4,532	+6%
Proved reserves (Mboe)	11,401	11,203	+2%
• Liquids (Mb)	7,323	7,231	+1%
• Gas (Bcf)	22,267	21,575	+3%
Operating income (M€) adjusted for special items	10,476	9,309	+13%
Net operating income (M€) adjusted for special items	5,259	4,648	+13%
Investments (M€)	5,302	6,122	–13%
Divestments at selling price (M€)	428	603	–29%
Cash flow from operating activities (M€)	9,214	7,721	+19%

Operating income adjusted for special items from the Upstream segment rose by 13% to 10,476 M€ in 2003. The positive effects of production growth and higher hydrocarbon prices more than offset the negative impact of a weaker dollar against the euro.

Net operating income adjusted for special items for the Upstream segment increased by 13% to 5,259 M€ in 2003.

Upstream ROACE was 29% in 2003.

For the year 2003, hydrocarbon production increased by 5%, in line with the announced objective.

Liquids production increased by 5% in 2003 due to the contribution of Sincor in Venezuela, Cepsa's production in Algeria, Balal and South Pars in Iran, and Amenam in Nigeria.

Gas production grew by 6% in 2003. The largest contributors to the increase were the Gulf of Mexico, Indonesia and the North Sea.

Proved hydrocarbon reserves increased by 2% in 2003 to a level representing 12.3 years of production at the current rate.
For consolidated subsidiaries, the 2001-2003 3-year average reserve replacement rate was 145% with corresponding finding costs of 0.7 $/b and reserve replacement costs of 4.3 $/b.

The main discoveries in 2003 were made in Angola (on blocks 17 and 32), in Kazakhstan, in the Gulf of Mexico, and in the British North Sea.

Main appraisals in 2003 have been undertaken in Kazakhstan on the Kashagan field (in which TOTAL has raised its stake from 16.7% to 20.4%), in Nigeria on the Usan/Ukot and Nkarika fields and in Bruneï on block B.

Moreover, TOTAL has taken new permits mainly in Saudi Arabia, in Russia, in Nigeria and in the Gulf of Mexico.

2003 highlights included many start-ups among which Amenam in Nigeria, Balal in Iran, Matterhorn in the United States, Al Jurf in Libya as well as the build-up of the Sincor upgrader in Venezuela and production from South Pars in Iran.

Other highlights for the year included launching several developments : Dalia on block 17 in Angola, Greater Ekofisk in the Norwegian North Sea as well as the first phase of the Surmont heavy oil project in which TOTAL has taken a 43.5% stake at the beginning of the year.

Regarding LNG, 2003 was highlighted by a rapid development of activities in Nigeria and in Mexico where TOTAL took a stake in a regazeification terminal project. In France, TOTAL signed a preliminary agreement to acquire a stake in the Fos II terminal project.

In European midstream gas, TOTAL has strenghthened its positions through the acquisition of ExxonMobil's distribution business in the UK and through the signing of a preliminary agreement with Gaz de France to separate their cross-shareholdings in two jointly-owned gas transmission and supply subsidiaries in France : GSO and CFM.

Gas and power activities were highlighted by the commissioning of the Bang Bo combined cycle power plant in Thailand and of the Taweelah A1 plant in Abu Dhabi.

For renewable energies, TOTAL has inaugurated its first wind power plant at the Flandres refinery in France.

Downstream

Downstream – key figures	**2003**	**2002**	**%**
Refinery throughput* (kb/d)	2,481	2,349	+6%
Refined product sales** (kb/d)	3,652	3,380 (2)	+8%
Operating income (M€) adjusted for special items	1,970	909	+117%
Net operating income (M€) adjusted for special items	1,460	846	+73%
Investments (M€)	1,235	1,112	+11%
Divestments at selling price (M€)	466	283	+65%
Cash flow from operating activities (M€)	3,099	1,447	+114%

** Including share of Cepsa.*
***Including Trading activities and share of Cepsa.*
(2) After correcting a reporting disparity related to sales in France.

Operating income adjusted for special items from the Downstream segment increased sharply to 1,970 M€ in 2003 from 909 M€ in 2002.

The rebound in refining margins and steady marketing margins in Europe combined to the positive impact of self help programs have by far more than offset the negative impact of the depreciation of the dollar relative to the euro.

Net operating income from the Downstream segment adjusted for special items increased by 73% to 1,460 M€ in 2003 compared to 846 M€ in 2002. The increasing contribution of Cepsa's upstream operations in 2003 has led to the decision to allocate the equity interest in Cepsa's net results among the business segments. In the past, the entire contribution of Cepsa was reflected in the Downstream segment. Taking into account the reallocation of the contribution of Cepsa since 2002, net operating income from the Downstream segment adjusted for special items would have been increased by 85% in 2003.

Downstream ROACE was 15% in 2003.

For the year 2003, refinery throughput increased by 6% to 2,481 kb/d. The refinery utilization rate rose to 92% in 2003 from 88% in 2002. Refined product sales were 3,652 kb/d in 2003.

In refining, the main highlights for 2003 concerned the review of a project aiming at the construction of a distillates hydrocracker at the Normandy refinery in France. This project, including the hydrogen supply unit, represents a total investment of approximately 500 M€ over 2003-2006. It will enable the refinery to reduce substantially its heavy oil production and enhance its supply flexibility for diesel, jet fuel and heating oil. The unit will also produce high quality bases for lubricants and speciality fluids. The project has been launched in February 2004.

In marketing, TOTAL has strenghthened its positions in Italy, Portugal and Germany through service-stations swaps with its main competitors. In France, following the implementation of a new market segmentation strategy, the Group increased its market share of on-road fuel in 2003.

Chemicals

Chemicals – key figures (in millions of euros)	2003	2002	%
Sales	17,260	19,317	–11%
Operating income Adjusted for special items	558	777	–28%
Net operating income Adjusted for special items	254	374	–32%
Investments	1,115	1,237	–10%
Divestments at selling price	891	140	x5,4
Cash flow from operating activities	268 *	1,053	–75 %

** This amount would be 987 M€ excluding the disbursement of 719 M€ related to the Toulouse-AZF reserve.*

For the year 2003, sales for the Chemicals segment were 17,260 M€, a decrease of 11% compared to 2002. Excluding from both years the paints business divested in February 2003, the decline in sales would have been 2%.
This decline is due primarily to the evolution of exchange rates.

Operating income adjusted for special items fell by 28% to 558 M€ in 2003 from 777 M€ in 2002.
The positive impact of productivity programs partially offset the negative effect of a generally more difficult environment compared to 2002.

Operating income for the Base chemicals & polymers sector increased in 2003 but was affected by very low petrochemical margins in Europe despite a rebound in the second quarter.

In 2003, Intermediates suffered an unfavorable economic context made worse by the weak dollar.

Specialties showed good resistance despite a more difficult environment.

Net operating income from the Chemicals segment adjusted for special items decreased by 32% in 2003 to 254 M€ from 374 M€.

Chemicals ROACE was 4% in 2003.

2003 highlights include the sale of the paint business in February and the implementation of a joint-venture with Samsung allowing TOTAL to take a 50% interest in its Daesan petrochemical complex in South Korea.

Parent company accounts and proposed dividend

The parent company, TOTAL S.A., reported net earnings of 3,272 M€ in 2003 compared to 2,410 M€ in 2002. The Board of Directors, after closing the accounts, decided to propose at the May 14, 2004 Annual General Meeting (AGM) a cash dividend of 4.70 euros per share, representing a 15% increase from the previous year, to which will be added the *avoir fiscal* (French tax credit) pursuant to the terms in force. The dividend will be paid May 24, 2004.

2004 Sensitivities

	Change	2004(e)* Sensitivities		
		Operating income	Net income	EPS [3]
€/$	± 0.1 $ per €	1.05 B€	0.54 B€	0.86 €
Brent	± 1 $ per barrel	0.54 B€	0.26 B€	0.42 €
Refining Margin (TRCV)	± 1 $ per ton	0.10 B€	0.07 B€	0.10 €

** 2004 sensitivities based on an environment of €/$ = 1.10; Brent = 20 $/b; TRCV = 12 $/t.*
(3) Based on 625.1 million fully-diluted shares at Dec. 31, 2003.

Summary and outlook

To take into account changes in the market environment, TOTAL decided to adjust certain assumptions in its medium-term reference environment: the Brent oil price increased to 20 $/b from 17 $/b; the euro/dollar exchange rate was revised to 1.1 dollars per euro from parity; and the mid-cycle for the Chemicals was revised downward. The European refining margin (TRCV) remains unchanged at 12 $/t.

Large, long-term Upstream projects are still required to show a satisfactory return at 17 $/b, regardless of the adjustments to the reference environment.

The table below shows 2003 ROACE calculated using the previous[4] and the new[5] reference environment assumptions.

	ROACE 2003 calculated using the previous reference environment [4]	ROACE 2003 calculated using the new reference environment [5]
Upstream	14%	17%
Downstream	14%	12%
Chemicals	11%	8%
Group	13.5%	13.5%

Having achieved the ambitious objectives set for the 2000-2003 period, TOTAL has set new targets for the coming 2004-2008 period:

- Upstream production is expected to grow by 4% per year on average [6];
- 2006-2008 ROACE [7] targets are to maintain Upstream at 17% and to improve Downstream to 15% and Chemicals to 12%;
- For the same period, the ROACE[7] target for the Group is 15.5%.

TOTAL's strategy for profitable growth over the 2004-2008 period is based on a sustained investment program of 9 to 10 B$ per year with priority given to the Upstream, which will account for 75% of Capex on average. The 2004 Capex budget has been set at approximately 10 B$.

TOTAL intends to pursue a dynamic dividend policy targeting a pay-out ratio of 50%.

The net-debt-to-equity ratio [8] is expected to be in the vicinity of 25% to 30%.

With a 24.4% interest in Sanofi-Synthelabo, TOTAL is closely monitoring the progress of the proposed merger with Aventis. TOTAL supports the proposed transaction, considering that value will be created. Further, TOTAL confirms that its strategy to divest over the medium term is unchanged. The Group anticipates that it will benefit from increased flexibility to exit at the appropriate times and to capture the value creation.

Since the beginning of 2004, the oil market environment has remained favorable with oil prices at a high level and satisfactory refining margins, while the dollar has been relatively weak against the euro and the environment for Chemicals persistently difficult. During January 2004, the Group bought back 0.8 million of its shares for 0.12 B€. Future share buybacks will be adjusted to the environment and divestments.

The steady progress of operations and the commitment of the employees to achieve the new targets should allow TOTAL to continue to generate strong organic growth while delivering high returns.

(4) Brent = 17 $/b ; TRCV = 12 $/t ; €/$ = 1; previous mid-cycle for Chemicals.
(5) Brent = 20 $/b ; TRCV = 12 $/t ; €/$ = 1.1; mid-cycle for Chemicals revised downward.
(6) 20 $/b Brent scenario.
(7) ROACE in the new reference environment: Brent = 20 $/b ; TRCV = 12 $/t ; €/$ = 1.1; mid-cycle for Chemicals revised downward.
(8) Net-debt-to-equity ratio = net-debt divided by equity after distribution of dividends.