Management report from the Board of Directors

Overview of TOTAL's fiscal year

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 Base chemicals & Polymers, Intermediates & Performance Polymers and Specialties.

The 2004 market environment has been favorable for the oil industry. The combination of very high oil prices, a sharp increase in refining margins and a rebound in petrochemical margins during the second half of the year allowed the Group to reach a new record level of earnings, 9.04 billion euros for adjusted net income (1), or an increase of 23% compared to 2003, despite the decline in the dollar.

Thanks to the commitment of our teams, we enjoyed solid operational performance by the business segments, particularly the continued growth of Upstream production, as well as ongoing productivity programs, which made significant contributions to the results.

Adjusted earnings per share increased by 27% to 14.68 euros. Expressed in dollars (2), the increase was 40%.

TOTAL pursued a large investment program of more than 8.7 billion euros, while offering, through a combination of dividends and buybacks, the best return to shareholders among the major oil companies.

TOTAL is confident that it can extend its long-term profitable growth largely through exploration successes and through giant projects currently being negotiated.

Full-year 2004 results

Consolidated sales increased by 17% to 122,700 million euros (M€) in 2004 from 104,652 M€ in 2003.

Operating income

Operating income from the business segments adjusted for special items increased by 32% to 17,123 M€ from 13,004 M€ in 2003.

The 4.1 B€ increase from 2003 to 2004 in operating income from business segments adjusted for special items is due primarily to the 3.7 B€ improvement in the market environment, which includes:
- + 3.1 B€ higher oil and gas prices (3)
- + 1.5 B€ stronger refining environment, including benefits not reflected in the higher TRCV margin mainly on the valorization of products and the cost of feedstock
- – 1.1 B€ decline in the dollar relative to the euro
- + 0.3 B€ better market conditions for Chemicals
- – 0.2 B€ weaker environment for marketing
- + 0.1 B€ stronger environment for shipping

In the Upstream segment, the benefit of 3.7% underlying production growth was partially offset by an increase in technical costs to 8.0 $/boe in 2004. More than half of the 0.7 $/boe increase in technical costs compared to 2003 is due to the impacts of foreign exchange and of the price effect on production volumes (production sharing and buy-back contracts).

In the Downstream segment, self-help programs contributed 0.15 B€ to the improvement in 2004 operating income.

In the Chemicals segment, the 12% increase in olefin production (which includes the integration of the Total-Samsung JV in South Korea) and ongoing self-help programs contributed 0.2 B€ to the improvement in operating income.

(1) Adjusted net income = net income (Group share) adjusted for special items and excluding TOTAL's equity share of amortization of goodwill and intangible assets related to the Sanofi-Aventis merger (153 M€ for full year 2004)
(2) Dollar amounts represent euro accounts converted at the average €/$ exchange rate for the period (1.2439 for the full year 2004, and 1.1312 for the full year 2003)
(3) This amount takes into account the fact that the change in the average gas price realization between 2003 and 2004 was smaller than the change in the average liquids price realization; in 2004, the average gas price increased by 14% to 3.74 $/Mbtu while the average liquids price increased by 31% to 36.8 $/b.

Special items had a negative impact of 847 M€ on operating income from the business segments in 2004, primarily due to the impairment of assets in the vinyl products and polyethylene activities in Europe.

In 2003, special items had a negative impact of 25 M€ on operating income from the business segments and included primarily impairment of assets in the Chemicals segment.

Net operating income from the business segments adjusted for special items increased by 26% to 8,792 M€ in 2004 from 6,973 M€ in 2003. The lower percentage increase, relative to the increase in operating income, is due primarily to a higher effective tax rate in 2004.

Net income

Net income adjusted for special items increased to 8,886 M€ from 7,344 M€ in 2003.

Special items had a positive effect on net income of 726 M€ in 2004 and were comprised mainly of:

- positive impacts primarily from the gain on dilution related to the merger of Sanofi and Aventis, net of the impact on equity income of TOTAL's share of items recorded by Sanofi-Aventis as part of the merger (restructuring charges, write-offs of certain in-progress R&D costs, and charges resulting from the adjustment of inventories to market value);
- partially offsetting the above were negative impacts primarily from the after-tax effect of the special items affecting operating income, notably the asset impairments related to the vinyl products and polyethylene activities in Europe, as well as impairments of goodwill in the Chemicals and Upstream segments and an additional Toulouse-AZF reserve.

In 2003, special items had a negative effect on net income of 319 M€ and included mainly restructuring charges and a provision for alleged anti-competitive practices in the Chemicals segment.

Adjusted net income for 2004, which excludes the negative impact of 153 M€ on equity income for TOTAL's share of the amortization of goodwill and intangible assets related to the Sanofi-Aventis merger as well as special items, showed an increase of 23% to 9,039 M€ as compared to 7,344 M€ in 2003.

In 2004, the Group bought back 22.55 million of its shares for 3.55 B€.

At December 31, 2004, there were 607.4 million fully-diluted shares compared to 625.1 million fully-diluted shares at the end of 2003.

Adjusted earnings per share, calculated based on 615.9 million fully-diluted shares in 2004, was 14.68 euros compared to 11.56 euros in 2003, an increase of 27%, reflecting the accretive effect of the share buyback.
Reported net income increased to 9,612 M€ in 2004 from 7,025 M€ in 2003.

Cash flow

Cash flow from operating activities rose to 14,429 M€ in 2004, a 16% increase compared to 2003. Excluding disbursements related to the reserve for Toulouse-AZF of 316 M€ in 2004 and 719 M€ in 2003, cash flow from operations increased by 12%.

In 2004, investments were 8,668 M€ or about 10.7 B$, in line with estimates made using an exchange rate assumption of 1.1 dollar per euro.

Divestments in 2004 were 1,192 M€, including sales of financial participations and, in the Upstream segment, sales of non-strategic assets and asset swaps with Gaz de France involving GSO and CFM in France.

Net cash flow [4] was 6,953 M€ in 2004 compared to 6,637 M€ in 2003.
The net-debt-to-equity ratio was 26.7% at December 31, 2004 compared to 25.9% at December 31, 2003.

Profitability

The return on average capital employed (ROACE [5]) for TOTAL was 24% in 2004, which was at the highest level among the majors.

Return on equity in 2004 was 31% compared to 26% in 2003.

(4) Net cash flow = cash flow from operating activities + divestments – investments
(5) Adjusted for special items and adjusted for equity in amortization of goodwill and intangible assets related to the Sanofi-Aventis merger

Consolidated accounts

(in millions of euros)	2004	2003	%
Sales	122,700	104,652	+ 17%
Operating income from business segments adjusted for special items	17,123	13,004	+ 32%
Net operating income from business segments adjusted for special items	8,792	6,973	+ 26%
Net income [a] adjusted for special items	8,886	7,344	+ 21%
Adjusted net income [a]	9,039	7,344	+ 23%
Net income [a]	9,612	7,025	+ 37%
Adjusted earnings per share [a] (euros)	14.68	11.56	+ 27%
Dividend (euros/share)	5.40 [b]	4.70	+ 15%
Investments [c]	8,668	7,728	+ 12%
Divestments [d] at selling price	1,192	1,878	– 37%
Cash flow from operating activities [e]	14,429	12,487	+ 16%

(a) Group share
(b) Pending approval at the May 17, 2005 AGM
(c) Including increases in long-term loans
(d) Including decreases in long-term loans
(e) Includes disbursements of 316 M€ in 2004 and 719 M€ in 2003 covered by a previously established reserve related to the Toulouse-AZF plant

Number of shares

(in millions)	2004	2003	%
Fully-diluted weighted-average shares	615.9	635.1	– 3%
Fully-diluted shares at end of the period	607.4	625.1	– 3%

Market environment

	2004	2003	%
€/$	1.24	1.13	– 9% (*)
Brent ($/b)	38.3	28.8	+ 33%
European refining margins TRCV ($/t)	32.8	20.9	+ 57%

(*) Change in the dollar versus the euro

Special items

(in millions of euros)	2004	2003
Impact of special items on operating income from business segments		
Restructuring charges	(119)	(1)
Impairments	(631) [a]	(17)
Other	(97) [b]	(7)
Total	**(847)**	**(25)**
Impact of special items on net income		
Gain on dilution from the Sanofi-Aventis merger, net of TOTAL's share of special items related to purchase accounting	1,690	-
Gain on asset sales	53	22
Additional Toulouse-AZF reserve	(98)	-
Restructuring charges and early retirement plans	(143)	(144)
Impairments	(688) [c]	(11)
Other	(88)	(186) [d]
Total	**726**	**(319)**

(a) Including (597) M€ in the Chemicals segment
(b) Including (92) M€ for a provision for environmental remediation in the Chemicals segment
(c) Including (553) M€ in the Chemicals segment
(d) Including (155) M€ for a provision for alleged anti-competitive practices in the Chemicals segment

Adjustment for amortization of Sanofi-Aventis merger-related intangibles

(in millions of euros)	2004	2003
Impact on equity income from TOTAL's share of amortization of goodwill (*) and intangible assets related to Sanofi-Aventis merger (*)	(153)	-

(*) Based on 13% ownership of Sanofi-Aventis at December 31, 2004

Upstream

Results

(in millions of euros)	2004	2003	%
Operating income adjusted for special items	12,820	10,476	+ 22%
Net operating income adjusted for special items	5,834	5,259	+ 11%
Investments	6,170	5,302	+ 16%
Divestments at selling price	637	428	+ 49%
Cash flow from operating activities	10,316	9,214	+ 12%

Operating income from the Upstream segment adjusted for special items increased by 22% to 12,820 M€ in 2004. The benefit from higher hydrocarbon prices and production growth was partially offset by the decrease in the dollar relative to the euro and higher technical costs.

Net operating income from the Upstream segment adjusted for special items was 5,834 M€ in 2004, an increase of 11%.

This increase, which is lower than the percentage increase for operating income, is due primarily to a higher average tax rate in 2004 compared to 2003, mainly because of an increase in production taxed at higher-than-average rates (Nigerian concessions) and to the temporary decrease in production that is taxed at lower-than-average rates (shut-down of the Sincor upgrader in Venezuela and suspended Gulf of Mexico production following Hurricane Ivan).

Profitability

Upstream return on average capital employed (ROACE) was 35% in 2004 compared to 29% in 2003. Recalculated using the reference environment [6], 2004 ROACE was 21%.

Production

	2004	2003	%
Hydrocarbon production (kboe/d)	2,585	2,539	+ 2%
• Liquids (kb/d)	1,695	1,661	+ 2%
• Gas (Mcf/d)	4,894	4,786	+ 2%

For the full year 2004, hydrocarbon production increased by 2% to 2,585 kboe/d from 2,539 kboe/d in 2003. Liquids production increased by 2% to 1,695 kb/d, and gas production also increased by 2%.

Adjusted for the negative impact of higher oil and gas prices on entitlement volumes from production sharing and buy-back contracts [7] ("price effect"), the underlying increase in production was 3.7% in 2004.

In addition to numerous start-ups during the year, notably Yucal Placer in Venezuela, Skirne Byggve in Norway, and Peciko Phase III in Indonesia (where operated production set a new record high), production ramp-ups on fields launched in 2003, including Amenam in Nigeria, Matterhorn in the US and Jasmin in Angola, contributed strongly to 2004 production growth.

(6) Brent = 25 $/b; TRCV = 15 $/t; €/$ = 1.25; petrochemicals at mid-cycle
(7) Approximately 27% of TOTAL's 2004 production was covered by production sharing and buy-back contracts

12/31/2004 reserves

	2004	2003	%
Hydrocarbon reserves (Mboe)	11,148	11,401	– 2%
• Liquids (Mb)	7,003	7,323	– 4%
• Gas (Bcf)	22,785	22,267	+ 2%

Proved reserves, calculated according to SEC rules, were 11,148 Mboe at December 31, 2004. At the current production rate, the reserve life is 11.8 years. The negative impact on proved reserves related to the application of high year-end prices as required by the SEC (Brent at 40.47 $/b on 12/31/2004) was approximately 270 Mboe.

The reserve replacement rate [8] for the 2002-2004 period, based on SEC rules, was 120% for the consolidated subsidiaries only and 106% for the Group.
Excluding the impact of changes in year-end prices and using a Brent 25 $/b scenario, the reserve replacement rate for the 2002-2004 period would be 131% for the consolidated subsidiaries only and 116% for the Group.

Over the same period, for consolidated subsidiaries only, the finding cost [9] was 0.8 $/boe and the reserve replacement cost [10] was 5.4 $/boe.

As of year-end 2004, TOTAL's portfolio of proved and probable reserves is solid and diversified, representing close to 20 years of production at the current rate [11].

Highlights

Exploration was very successful in 2004 with the main discoveries in Angola on Block 32, in Nigeria, in Libya, in Congo, in Kazakhstan and in Bolivia. Main appraisals in 2004 were made on the Laggan permit in the UK North Sea, on OPL 222 and 246 in Nigeria, on Block 17 in Angola, on Moho Bilondo in Congo, and on the Timimoun permit in Algeria.

Moreover, TOTAL has taken new permits mainly in Indonesia, the UK, Norway and Algeria.

Important project developments have been launched in 2004: Kashagan in Kazakhstan, Rosa on Block 17 in Angola and the 6th train of Bonny LNG in Nigeria.

In line with expectations, many start-ups have taken place among which Yucal Placer in Venezuela, Skirne Byggve in Norway, Peciko phase III in Indonesia and Al Khalij in Qatar. The Sincor upgrader in Venezuela has been debottlenecked, increasing its capacity to 215 kb/d.

In Upstream, LNG, sales [12] grew by 7% in 2004, and the Group took important new steps, notably signing an agreement in Iran to set the general framework for the Pars LNG project.

In addition, TOTAL has strongly developed its positions in regasification terminals by acquiring a stake in the Hazira project in India and in the Fos Cavaou project in France and by securing regasification capacity of 10 Bm^3/year, over a period of 20 years starting in 2009, at the Sabine Pass project in Louisiana (US).

In mid-stream gas, TOTAL and Gaz de France signed the final agreements to swap interests in GSO and CFM.

2004 highlights also included an agreement to acquire 25% plus one share of Novatek, the largest independent gas producer in Russia.

(8) Ratio of changes in reserves excluding production (i.e. revisions, discoveries, extensions, acquisitions, sales of reserves) divided by production
(9) (Explorations costs + unproved property acquisition) / (revisions + discoveries, extensions of reserves)
(10) (Exploration and development costs + proved and unproved acquisitions) / (revisions + discoveries, extensions + acquisitions of reserves)
(11) Limited to proved and probable reserves covered by E&P contracts on fields that have been drilled and for which technical studies have demonstrated economic development in a Brent 25 $/b environment
(12) TOTAL share, excluding trading

Downstream

Results

(in millions of euros)	2004	2003	%
Operating income adjusted for special items	3,217	1,970	+ 63%
Net operating income adjusted for special items	2,302	1,460	+ 58%
Investments	1,516	1,235	+ 23%
Divestments at selling price	200	466	– 57%
Cash flow from operating activities	3,111	3,099	-

Operating income from the Downstream segment adjusted for special items increased by 63% in 2004 to 3,217 M€ from 1,970 M€ in 2003. This performance was due mainly to a sharp improvement in the refining environment, despite a decline in the dollar. Strong tensions on the Atlantic basin markets combined with an increase in the price differential between heavy and light grades of crude at the end of the year created favorable market conditions that were only partially reflected by the increase in TRCV margins.

Downstream results also continued to benefit from self-help programs.

Net operating income from the Downstream segment adjusted for special items rose to 2,302 M€ in 2004 from 1,460 M€ in 2003, an increase of 58%.

Profitability

Downstream return on average capital employed (ROACE) was 25% in 2004 compared to 15% in 2003. Recalculated using the reference environment [13], 2004 ROACE was 13%.

Refinery throughput - Refined product sales

	2004	2003	%
Refinery throughput (*) (kb/d)	2,496	2,481	+ 1%
Refined product sales (**) (kb/d)	3,771	3,652	+ 3%

(*) Includes share of Cepsa
(**) Includes trading and share of Cepsa

For the full year 2004, refinery throughput increased by 1% to 2,496 kb/d compared to 2,481 kb/d in 2003. The utilization rate rose to 93% in 2004 from 92% in 2003.

Refined product sales increased by 3% to 3,771 kb/d in 2004.

Highlights

In refining, the main highlights for 2004 concerned the launch of the construction of a distillate hydrocracker (DHC) at the Normandy refinery in France. This project, including the hydrogen supply unit, represents a total investment of approximately 500 M€ over the 2003-2006 period. 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 specialty fluids. The start-up is scheduled for 2006.

In marketing, TOTAL announced the signing of a joint venture with Sinochem for the creation of a network of 200 service stations in northern China, where the two companies are already working together at the Dalian refinery.

TOTAL also acquired a service station network in Puerto Rico that has about a 6% market share.

In France, the Group has implemented its brand strategy, including the deployment of the Elan brand mainly aimed at rural areas.

(13) Brent = 25 $/b; TRCV = 15 $/t; €/$ = 1.25; inventory at replacement cost. Downstream ROACE calculated in this reference environment is comparable to the ROACE calculated in the former reference environment (TRCV = 12 $/t; €/$ = 1.10)

Chemicals

Results

(in millions of euros)	2004	2003	%
Sales	20,042	17,260	+ 16%
Operating income adjusted for special items	1,086	558	+ 95%
Net operating income adjusted for special items	656	254	+ 158%
Investments	905	1,115	– 19%
Divestments at selling price	122	891	– 86%
Cash flow from operating activities (*)	556	268	+ 107 %

(*) Includes disbursements related to the Toulouse-AZF reserve of 316 M€ for the full year 2004 and 719 M€ for the full year 2003

Chemicals sales increased by 16% to 20,042 M€ in 2004.

Operating income adjusted for special items increased sharply by 95% to 1,086 M€ from 558 M€ in 2003.

This recovery was due mainly to a higher contribution from base chemicals, reflecting the rebound in petrochemical margins in Europe and the US in the second half of 2004. The improvement in the utilization rate of the steam-crackers compared to 2003 allowed the Group to benefit fully from the favorable market conditions.

In 2004, margins for the Intermediates improved, particularly at the end of the year, despite the weakness of the dollar and an increase in raw material costs.

Specialties continued to perform well in terms of results and cash flow.

Net operating income from the Chemicals segment adjusted for special items rose to 656 M€ from 254 M€ in 2003.

Profitability

Chemicals return on average capital employed (ROACE) increased to 8.5% from 3.5% in 2003. Excluding Arkema, the 2004 Chemicals ROACE would have been 10%. Recalculated using the reference environment [(6)], ROACE was 8.5% in 2004 compared to 7% in 2003.

Highlights

In 2004, TOTAL announced a project to restructure its Chemicals segment aiming at a lighter functional organization as well as the creation of a decentralized entity, separate from the petrochemicals and the specialties, that would be comprised of the chlorochemicals, intermediates and performance polymers. This new entity has been named Arkema on October 1, 2004. Arkema is comprised of three activities: Vinyl Products, Industrial Chemicals and Performance Polymers.
Its management team was put in place in June 2004 and is building an organization that will allow Arkema to be spun-off as an independent entity in 2006 [(14)].

In January 2005, Arkema announced a plan to restructure its vinyl products business in France to improve the performance of its chlorochemicals chain.

TOTAL S.A. parent company accounts and proposed dividend

The parent company, TOTAL S.A., reported net earnings of 3,443 M€ in 2004 compared to 3,272 M€ in 2003. The Board of Directors, after closing the accounts, decided to propose at the May 17, 2005 Annual General Meeting a dividend of 5.40 euros per share for 2004, a 15% increase compared to 2003.
The pay-out ratio for TOTAL in 2004, based on adjusted net income, would be 37%, above the average of the other majors [(15)].

Taking into account the interim dividend payment of 2.40 euros per share made on November 24, 2004, the remaining dividend payable of 3 euros per action will be paid on May 24, 2005.

(14) Subject to market conditions and after informing/consulting with labor representatives
(15) ExxonMobil, BP, RD/Shell, ChevronTexaco

2005 Sensitivities

(in millions of euros)	Change	2005 Sensitivities (estimation) (*) Operating income	Net income
€/$	+ 0.1 $ per €	– 1.05 B€	– 0.60 B€
Brent	+ 1 $ per barrel	+ 0.45 B€	+ 0.20 B€
European refining margins (TRCV)	+ 1 $ per ton	+ 0.09 B€	+ 0.06 B€

(*) 2005 sensitivities based on reference environment: Brent = 25 $/b; TRCV = 15 $/t; €/$ = 1.25

Summary and outlook

Based on the oil supply-demand tensions, TOTAL foresees a medium-term Brent price above 25 $/b. To evaluate long-term projects, TOTAL maintains a prudent 21$/b scenario.
In this context, TOTAL continues to implement a growth strategy well-adapted to the changing environment.

- In the Upstream, TOTAL intends to continue to combine growth and profitability at the highest level for the long term. Thus, the target rate of 4% per year on average for production growth is extended through 2010 (16) thanks notably to the new large projects close to finalization in the Middle East, in Russia and in West Africa. The Group has the objective to maintain ROACE above 20% in a 25 $/b Brent environment.

- In the Downstream, the Group intends to strengthen its leadership positions in Europe and in Africa while growing selectively, notably in Asia and in the Caribbean. This strategy includes continuing self-help programs over the 2004-2007 period aimed at achieving a recurring impact on operating income of 500 M€ per year by 2007. In this context, the Group maintains the ROACE target of 15% in the reference environment (13) for Downstream by 2007/2009, without substantially changing capital employed.

- In the Chemicals segment, TOTAL confirms its target to spin-off Arkema in 2006 (14). The combination of this operation, olefin production growth, notably in Asia and the Middle East and the ongoing productivity programs should allow profitability to reach the 12% ROACE target for Chemicals by 2007/2009 in the reference environment (13).

The implementation of TOTAL's strategy requires a sustained investment program.

Based on an exchange rate of €/$ 1.25, the 2005 Capex budget is approximately 12 B$, including 0.9 B$ for the proposed acquisition of a 25% stake in Novatek.
In the Upstream (70% of 2005 budget), investments will be mainly dedicated to the ongoing development of large projects (Kashagan, Dolphin, Dalia, Snøhvit...).

In the Downstream, a peak in investments is expected in 2005 notably due to the construction of the DHC at the Normandy refinery.

Beyond 2005, investments should represent 10 B$ to 11 B$ per year on average over 2006-2009.
This represents a level of investments in line with prior estimates given the impact of changing the €/$ exchange rate assumption (from 1.10 to 1.25) and the capitalization of costs for major turnarounds in refining and petrochemicals as required under IFRS.

Over the 2005-2009 period, the average annual cash flow after investments in the reference environment (13) should represent between 6 B$ and 7 B$.

The net-debt-to-equity ratio for the Group is targeted to remain at around 25% to 30%.

TOTAL intends to pursue a dynamic dividend policy with a target pay-out ratio of 50% over the medium term.

Cash flow after investments and payment of dividend will be available for share buybacks.

In addition, sales of Sanofi-Aventis shares (valued at 10,3 B€ as of December 31, 2004) are not planned for the short term.

Since the beginning of 2005, although the dollar remains weak, the oil market environment has remained favorable with high oil prices, refining margins that are still strong despite a retreat from the level of the fourth quarter, and an overall favorable environment for Chemicals.

(16) In a 25 $/b Brent scenario