RISK FACTORS

The Group and its businesses are subject to various risks relating to changing competitive, economic, political, legal, social, industry, business and financial conditions. These conditions are described below and discussed in greater detail elsewhere, along with the Company's approaches to managing certain of these risks, in this Annual Report, particularly under the heading "Item 4. Information on the Company — Business Overview — Other Matters" and under the heading "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

Industry and Company Risks

A substantial or extended decline in oil or natural gas prices would have a material adverse effect on our results of operations.

Prices for oil and natural gas historically have fluctuated widely due to many factors over which we have no control. These factors include:

- global and regional economic and political developments in resource-producing regions, particularly in the Middle East;
- global and regional supply and demand;
- the ability of the Organization of Petroleum Exporting Countries (OPEC) and other producing nations to influence global production levels and prices;
- prices of alternative fuels which affect our realized prices under our long-term gas sales contracts;
- governmental regulations and actions;
- global economic conditions;
- cost and availability of new technology; and
- weather conditions.

Substantial or extended declines in oil and natural gas prices will adversely affect our results of operations by reducing our profits. For the year 2004, we estimate that a decrease of $1 per barrel in the price of Brent crude would have the effect of reducing our annual net income by approximately 260 M€. Lower oil and natural gas prices over prolonged periods may also reduce the economic viability of projects planned or in development, causing us to cancel or postpone capital expansion projects, and may reduce liquidity, thereby potentially decreasing our ability to finance capital expenditures. If we are unable to follow through with capital expansion projects, our opportunities for future revenue and profitability growth would be reduced, which could materially impact our financial condition.

We face foreign exchange risks that could adversely affect our results of operations.

Our business faces foreign exchange risks because a large percentage of our revenues and cash receipts are denominated in U.S. dollars, the international currency of petroleum sales, while a significant portion of our operating expenses and income taxes accrue in euro and other currencies. Movements between the U.S. dollar and euro or other currencies may adversely affect our business by negatively impacting our booked revenues and income. For the year 2004, we estimate that a decrease in the euro-dollar exchange rate of $0.10 per € 1 would have, without the use of hedging techniques, a corresponding negative effect on our annual net income of approximately 540 M€.

Our long-term profitability depends on cost effective discovery and development of new reserves; if we are unsuccessful, our results of operations and financial condition will be materially and adversely affected.

A significant portion of our revenues and the majority of our operating income are derived from the sale of crude oil and natural gas which we extract from underground reserves discovered and developed as part of our Upstream business. In order for this business to continue to be profitable, we continuously need to replace depleted reserves with new proved reserves. Furthermore, we need to accomplish such replacement in a manner that allows subsequent production to be economically viable. However, our ability to discover and develop new reserves successfully is uncertain and can be negatively affected by a number of factors, including:

- unexpected drilling conditions, including pressure or irregularities in geological formations;
- equipment failures or accidents;
- our inability to develop new technologies that permit access to previously inaccessible fields;
- adverse weather conditions;
- compliance with unanticipated governmental requirements;
- shortages or delays in the availability or delivery of appropriate equipment;
- industrial action; and
- problems with legal title.

Any of these factors could lead to cost overruns and impair our ability to make discoveries or complete a development project, or to make production economical. If we fail to discover and develop new reserves cost-effectively on a consistent basis, our results of operations, including profits, and our financial condition would be materially and adversely affected.

Our crude oil and natural gas reserve data are only estimates, and subsequent downward adjustments are possible. If actual production from such reserves is lower than current estimates indicate, our results of operations and financial condition will be negatively impacted.

Our proved reserves figures are estimates reflecting applicable reporting regulations. Proved reserves are estimated using geological and engineering data to determine with reasonable certainty whether the crude oil or natural gas in known reservoirs is recoverable under existing economic and operating conditions. This process involves making subjective judgments. Consequently, measures of reserves are not precise and are subject to revision. They may be negatively impacted by a variety of factors which could cause such estimates to be adjusted downward in the future, or cause our actual production to be lower than our currently reported proved reserves indicate. The factors which may cause our proved reserves estimates to be adjusted downward, or actual production to be lower than the amounts implied by our currently reported proved reserves, include:

- a decline in the price of oil or gas, making reserves no longer economically viable to exploit and therefore not classifiable as proved;
- changes in tax rules and other government regulations that make reserves no longer economically viable to exploit;
- the quality and quantity of our geological, technical and economic data, which may prove to be inaccurate;
- the actual production performance of our reservoirs; and
- engineering judgments.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. Results of drilling, testing and production after the date of the estimates may require substantial downward revisions in our reserve data. Any downward adjustment would indicate lower future production amounts and may adversely affect our results of operations, including profits as well as our financial condition.

We have significant production and reserves located in politically, economically and socially unstable areas, where the likelihood of material disruption of our operations is relatively high.

A significant portion of our oil and gas production occurs in unstable regions around the world, most significantly Africa, but also the Middle East, South America and Asia. Approximately 28%, 17%, 8% and 9% of our 2003 production came from these four regions respectively. In recent years, a number of the countries in these regions have experienced varying degrees of one or more of the following: economic instability, political volatility, civil war, violent conflict and social unrest. In sub-Saharan Africa, each of the countries in which we have production has recently suffered at least four out of five of these conditions. The Middle East in general has recently suffered increased political volatility in connection with violent conflict and social unrest. A number of countries in South America where we have production and other facilities, including Argentina and Venezuela, have suffered from economic instability and social unrest and related problems. In the Far East, Indonesia has suffered the majority of these conditions. Any of these conditions alone or in combination could disrupt our operations in any of these regions, causing substantial declines in production. Furthermore, in addition to current production, we are also exploring for and developing new reserves in other regions of the world that are historically characterized by political, social and economic instability, such as the Caspian Sea region where we have a number of large projects currently underway. The occurrence and magnitude of incidents related to economic, social and political instability are unpredictable. It is possible that they could have a material adverse impact on our production and operations in the future.

We are subject to stringent environmental, health and safety laws in numerous jurisdictions around the world and may incur material costs to comply with these laws and regulations.

We incur, and expect to continue to incur, substantial capital and operating expenditures to comply with increasingly complex laws and regulations covering the protection of the natural environment and the promotion of worker health and safety, including:

- costs to prevent, control, eliminate or reduce certain types of air and water emissions,
- remedial measures related to environmental contamination or accidents at various sites, including those owned by third parties,
- compensation of persons claiming damages caused by our activities or accidents, and
- costs in connection with the dismantling of drilling platforms.

If our established financial reserves prove not to be adequate, environmental costs could have a material effect on our results of operations and our financial position. Furthermore, in the countries where we operate or expect to operate in the near future, new laws and regulations, the imposition of tougher license requirements, increasingly strict enforcement or new interpretations of existing laws and regulations or the discovery of previously unknown contamination may also cause us to incur material costs resulting from actions taken to comply with such laws and regulations, including:

- modifying operations,
- installing pollution control equipment,
- implementing additional safety measures, and
- performing site clean-ups.

As a further result of any new laws and regulations or other factors, we may also have to curtail or cease certain operations, which could diminish our productivity and materially and adversely impact our results of operations, including profits.

Our operations throughout the developing world are subject to intervention by various governments, which could have an adverse effect on our results of operations.

We have significant exploration and production, and in some cases refining, marketing or chemicals operations, in developing countries whose governmental and regulatory framework is subject to unexpected change and where the enforcement of contractual rights is uncertain. In addition, our exploration and production activity in such countries is often done in conjunction with state-owned entities, for example as part of a joint venture, where the state has a significant degree of control. Potential intervention by governments in such countries can take a wide variety of forms, including:

- the award or denial of exploration and production interests;
- the imposition of specific drilling obligations;
- price and/or production quota controls;
- nationalization or expropriation of our assets;
- cancellation of our license or contract rights;
- increases in taxes and royalties;
- the establishment of production and export limits;
- the renegotiation of contracts;
- payment delays; and
- currency exchange restrictions.

Imposition of any of these factors by a host government in a developing country where we have substantial operations, including exploration, could cause us to incur material costs or cause our production to decrease, potentially having a material adverse effect on our results of operations, including profits.

Our activities in Iran and Libya could lead to sanctions under relevant U.S. legislation.

In 2001, the U.S. legislation implementing sanctions against Iran and Libya, referred to as ILSA, was extended until August 2006. ILSA authorizes the President of the United States to impose sanctions (from a list that includes denial of financing by the U.S. export-import bank and limitations on the amount of loans or credits available from U.S. financial institutions) against persons found by the President to have knowingly made investments in Iran or Libya of $20 million or more in any twelve-month period. In May 1998 the U.S. government waived the application of sanctions for our investment in the South Pars gas field in Iran. This waiver, which has not been modified since it was granted, does not address our other activities in Iran and Libya, although we have not been notified of any related sanctions. At the end of 1996, the Council of the European Union adopted Council Regulation No. 2271/ 96 which prohibits us from complying with any requirement or prohibition based on or resulting directly or indirectly from certain enumerated legislation, including ILSA. It also prohibits us from extending our waiver for South Pars to other activities. In each of the years since the passage of ILSA, we have made investments in each of Libya and Iran (excluding South Pars) in excess of $20 million, sometimes substantially exceeding this figure. In 2003, our average daily production in Libya and Iran amounted to 92 kboe/ d, approximately 4% of our average daily worldwide production. In February 2004, we entered into a shareholders' agreement with the National Iranian Oil Company and Petronas to create the Pars LNG joint venture. This project is still in its early stages and no major financial commitments are expected to be made in the near future. We expect to continue to invest amounts significantly in excess of $20 million per year in each of Libya and Iran in the foreseeable future. We cannot predict interpretations of or the implementation policy of the U.S. government under ILSA with respect to our current or future activities in Iran or Libya. It is possible that the United States may determine that these or other activities will constitute activity prohibited by ILSA and will subject us to sanctions. We do not believe that enforcement of ILSA, including the imposition on us of the maximum sanctions under the current law and regulations, would have a material negative effect on our results of operations or financial condition. On April 23, 2004, the President of the United States terminated the application of ILSA with respect to Libya.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

TOTAL, a French *société anonyme* incorporated on March 28, 1924, together with its subsidiaries and affiliates, is the fourth largest publicly-traded integrated oil and gas company in the world, based on market capitalization, with operations in more than 130 countries. TOTAL engages in all aspects of the petroleum industry, including upstream operations (oil and gas exploration, development and production, LNG) and downstream operations (refining, marketing and the trading and shipping of crude oil and petroleum products). TOTAL also produces base chemicals and polymers, intermediates and performance polymers and specialty chemicals for industrial and consumer use. In addition, TOTAL has interests in coal mining and in the cogeneration and electricity sectors.

The Company began its upstream operations in the Middle East in 1924. Since that time, the Company has grown and expanded its operations worldwide. Most notably, in early 1999 the Company acquired control of PetroFina S.A. (“PetroFina” or “Fina”) and in early 2000, the Company acquired control of Elf Aquitaine S.A. (“Elf Aquitaine” or “Elf”). The Company currently owns 99.5% of Elf Aquitaine shares and, since early 2002, 100% of PetroFina shares. The Group, which operated under the name TotalFina from June 1999 to March 2000, and then under the name TotalFinaElf, now operates once again under the name TOTAL, as the Shareholders’ Meeting on May 6, 2003 approved the change of the Company’s legal name to TOTAL S.A.

The Company’s strategy is to develop its Upstream segment, including reinforcing its position as one of the leaders in the worldwide natural gas and LNG markets, to consolidate its position in the Downstream segment in Europe, while developing its interests in rapidly growing markets (such as the Mediterranean Basin, Africa and Asia), and to rationalize its Chemicals segment by giving priority to improving profitability and expanding its Base chemicals operations and by creating a new decentralized pole encompassing the chlorochemicals, intermediates and performance polymers businesses, destined to be a competitive and independent entity.

The Company’s principal address is 2, place de la Coupole, La Défense 6, 92400 Courbevoie, France; its telephone number is 33.1.47.44.45.46 and its website address is www.total.com.

The Company has appointed CT Corp, 111 Eighth Avenue, New York, NY 10011, as agent for service of process under its most recent registration statement filed with the U.S. Securities and Exchange Commission.

Basis of Presentation of Financial Information

In general, financial information included in this Annual Report is presented according to French GAAP and accordingly reflects the pooling of interest method for the acquisition of Elf Aquitaine beginning with fiscal year 2000, as well as for the acquisition of PetroFina in 1999 (Article 215 of Rule 99-02).

BUSINESS OVERVIEW

TOTAL’s worldwide operations are conducted through three business segments:

- Upstream,
- Downstream, and
- Chemicals.

The Upstream segment includes exploration, development and production activities, as well as TOTAL’s coal and Gas & Power operations. The Downstream segment sells substantially all of the crude oil produced by TOTAL, purchases most of the crude oil required to supply TOTAL’s refineries, operates refineries and markets petroleum products worldwide through both retail and non-retail activities, and conducts TOTAL’s bulk crude oil and gas trading. The Chemicals segment includes the Base Chemicals & Polymers sector, which is linked to