

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 – B. Business Overview – Other Matters" and under the heading "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

Price fluctuations

Oil, refined products, natural gas and chemical prices can vary as a result of changes in supply and demand for products, which may be global or limited to specific regions and influenced by factors such as economic conditions, weather conditions, geopolitical considerations or actions taken by major oil exporting countries.

Currency fluctuations

The Group is present in many countries and territories throughout the world and is subject to risks from changes in currency values and exchange controls.

Drilling and production results

The Group's future oil and gas production is significantly dependent on successful drilling and well development. There are risks in this process in interpretation of geological and engineering data, project delay, cost overruns and technical, fiscal and other conditions.

Reserve estimates

Information on oil and gas reserves is given below in "Supplemental Oil and Gas Information (Unaudited)", following the Notes to the Consolidated Financial Statements. Oil and gas reserves cannot be measured exactly since estimation of reserves involves subjective judgment and arbitrary determinations and is dependent, among other things, on the reliability of technical and economic data.

Loss of market

The Group is subject to differing economic and financial market conditions in countries and regions throughout the world. There are risks to such markets from political or economic instability, as well as from industry competition.

Political risks

The oil industry is particularly subject to regulation and intervention by governments throughout the world in matters related to exploration, production, operations, development, ownership and contract rights as well as the payment of royalties and taxes.

Environmental risks

The Group is subject to a number of different environmental laws, regulations and reporting requirements. Costs are incurred for prevention, control, abatement or elimination of releases into the air and water, as well as in the disposal and handling of wastes at operating facilities. Expenditures of a capital nature include both remedial measures on existing plants and integral features of new plants.

Physical risks

The Group's assets are subject to risk from operational hazards, natural disasters and expropriation of property.

Legislative, fiscal and regulatory developments

The Group's operations are subject to risk of change in legislation, taxation and regulation. For exploration and production activities, these matters include land tenure, entitlement to produced hydrocarbons, production rates, royalties, pricing, environmental protection, social impact, exports, taxes and foreign exchange.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

TotalFinaElf, a French *société anonyme* incorporated on March 28, 1924, together with its subsidiaries and affiliates, is the fifth largest publicly-traded integrated oil and gas company in the world, with operations in more than 120 countries. TotalFinaElf engages in all aspects of the petroleum industry, including upstream operations (oil and gas exploration, development and production); downstream operations (refining and marketing); and the trading and shipping of crude oil and petroleum products. TotalFinaElf also produces base chemicals and polymers, intermediates and performance polymers and specialty chemicals for industrial and consumer use. In addition, TotalFinaElf 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"), following which the Company changed its legal name to TOTAL FINA ELF S.A. The Company currently owns 99.4% of Elf Aquitaine shares and, since early 2002, 100% of PetroFina shares. Until June 1999, the Company operated under the name Total. From June 1999 to March 2000, the Company operated under the name TotalFina. From March 2000 until the present, the Company has operated under the name TotalFinaElf. The Company announced in February 2003 its intention to change its legal name to Total S.A., subject to approval by shareholders in May 2003, after which approval it will operate under the name Total.

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 Far East), and to rationalize its Chemicals segment giving priority to improving profitability and expanding its Base chemicals and polymers operations.

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.totalfinaelf.com.

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).

B. BUSINESS OVERVIEW

TotalFinaElf'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 TotalFinaElf's coal and gas and power operations. The Downstream segment sells substantially all of the crude oil produced by TotalFinaElf, purchases most of the crude oil required to supply TotalFinaElf's refineries, operates refineries and markets petroleum products worldwide through both retail and non-retail activities, and conducts TotalFinaElf's bulk crude oil and gas trading. The Chemicals segment includes Base chemicals and