

RISK FACTORS

LEGAL AND INDUSTRIAL RISKS

Regulation of Exploration and Production Activities

TotalFinaElf's exploration and production activities are conducted in many different countries and are therefore subject to an extremely broad range of legislation and regulations. These cover virtually all aspects of exploration and production activities, including matters such as land tenure, production rates, royalties, pricing, environmental protection, export, taxes and foreign exchange. The terms and conditions of the leases, licenses and contracts under which these oil and gas interests are held vary from country to country. These leases, licenses and contracts are generally granted by or entered into with a government entity or state company and are sometimes entered into with private property owners. These arrangements usually take the form of licenses or production sharing agreements.

Licenses (or concessions) give the holder the right to explore for and exploit a commercial discovery. Under a license, the holder bears the risk of exploration, development and production activities and provides the financing for these operations. In principle, the license holder is entitled to all production minus any royalties that are payable in kind. A license holder is generally required to pay production taxes or royalties, which may be in cash or in kind. In addition, in certain cases the government entity or state company may acquire a participation in the concession. In a few cases, the government entity or state company has an option to purchase a certain share of production.

Production sharing agreements entered into with a government entity or state company generally obligate TotalFinaElf to provide all the financing and bear the risk of exploration and production activities in exchange for a share of the production remaining after royalties, if any. Usually, a fixed or variable percentage of this production is reserved for the recovery of TotalFinaElf's cost (cost oil) and the remainder (profit oil) is shared with the government entity or state company on a fixed or volume-dependent basis. The right of TotalFinaElf to recover cost oil is limited in certain cases by a requirement that the cost oil not exceed a maximum percentage of production. This right is also limited in certain cases by a requirement that TotalFinaElf's costs be amortized over a specified period of time.

In addition, TotalFinaElf's profit margin may also be limited in the event of an increase in oil price due to additional payment obligations. In some cases, the government entity or state company will participate in the rights and obligations of TotalFinaElf and will share in the costs of development and production. Such participation can be across the venture or be on a per field basis.

In certain countries, separate licenses are required for exploration and production activities and, in certain cases, production licenses are limited to a portion of the area covered by the exploration license. Both exploration and production licenses are generally for a specified period of time (except for production licenses in the United States which remain in effect until production ceases). The term of TotalFinaElf's licenses and the extent to which these licenses may be renewed vary by area.

TotalFinaElf is required in certain countries to relinquish a portion of the acreage covered by a license as a condition to obtaining a renewal of the license. TotalFinaElf may also be required in certain countries to relinquish acreage (or to surrender a license) under other circumstances. These circumstances, which vary by area, may include the failure to obtain a production license within a specified period of time or the failure to have a field development plan approved within a specified period of time. TotalFinaElf believes that these requirements have not materially affected its operations.

In general, TotalFinaElf is required to pay income tax on income generated from production activities (whether under a license or production sharing agreement). In addition, depending on the area, TotalFinaElf's production activities may be subject to a range of other taxes, levies and assessments, including special petroleum taxes and revenue taxes. The taxes imposed upon oil and gas production profits and activities may be substantially higher than those imposed on other businesses.

Risks Related to Political and Economic Factors

The oil industry is subject to regulation and intervention by governments throughout the world in such matters as:

- the award of exploration and production interests,
- the imposition of specific drilling obligations,
- environmental protection controls,
- price controls,
- control over the development and abandonment of a field (including restrictions on production),
- restrictions, requirements or sanctions imposed on companies because of ownership, affiliations or operations in certain foreign countries, and
- possible nationalization, expropriation or cancellation of contract rights.

The oil industry is also subject to the payment of royalties and taxation, which tend to be high compared with those imposed in respect of other commercial activities. In particular, substantial portions of TotalFinaElf's oil reserves are located in countries outside the European Union and North America, certain of which may individually be considered politically and economically unstable. These reserves and the related operations are subject to certain risks, including:

- increases in taxes and royalties,
- the establishment of production and export limits,
- the renegotiation of contracts,
- the nationalization or renationalization of assets,
- other risks relating to changes in local government regimes and policies and resulting changes in business customs and practices,
- payment delays,
- currency exchange restrictions, and
- losses and impairment of operations by actions of insurgent or terrorist groups.

TotalFinaElf, like other major international oil companies, attempts to conduct its business and financial affairs so as to protect against such political and economic risks. However, because the requirements imposed by such laws and regulations are frequently changed and actions by insurgent or terrorist groups cannot be anticipated, there can be no assurances that such events will not adversely affect TotalFinaElf.

In August 1996, the United States adopted the Iran and Libya Sanctions Act (the "Sanctions Act"). The Sanctions Act requires the President of the United States to impose two or more of certain enumerated sanctions on any person or company, regardless of nationality, that makes investments in Iran of \$20 million or more, or in Libya of \$40 million or more, that directly contribute to the enhancement of Iran's or Libya's ability to develop their respective petroleum resources. TotalFinaElf has engaged in certain activities in Iran and Libya. In May 1998, the U.S. Department of State issued its determination that the investment made by TotalFinaElf, Gazprom and Petronas in Iran's South Pars gas and condensate field constituted activity covered by the Sanctions Act, and, at the same time, communicated its decision to waive sanctions under section 9(c) of the Sanctions Act with respect to such investment. The waiver only applies to certain of TotalFinaElf's activities in the South Pars field, and does not address TotalFinaElf's other activities in Iran and Libya. The Sanctions Act was renewed for an additional 5 year period in August 2001. TotalFinaElf cannot predict future interpretations, or the implementation policy, of the U.S. Government regarding TotalFinaElf's other investments that are covered by the Sanctions Act.

Relative to the Group's 2001 results, the financial impact stemming from the recent devaluation of the Argentine peso is not material and has not resulted in a financial charge. However, the evolution of the situation in Argentina could have a material effect on the Group's business in that country, which is limited as compared to the scale of the Group.

Risks Related to Oil and Gas Exploration and Production

Oil and gas exploration and production require high levels of investment and have particular economic risks and opportunities. These activities are subject to risks relating to the physical characteristics of an oil and gas field. These operating hazards may include crude oil and natural gas blowouts, explosions, encountering formations with abnormal pressures, cratering and crude oil spills and fires, any of which could result in damage to or destruction of crude oil and natural gas wells, destruction of production facilities, damage to life or property, suspension of operations, environmental damages and possible liability to TotalFinaElf. In accordance with customary industry practices, TotalFinaElf maintains insurance against some, but not all, of such risks and some, but not all, of such losses.

These activities also involve uncertainties relating to estimating quantities of proven and potential reserves and the capabilities of production facilities as well as uncertainties about the ability to control unit costs in exploration, production, refining and marketing. A high degree of risk of loss of invested capital exists in almost all exploration and development activities that TotalFinaElf undertakes. No assurance can be given that crude oil or natural gas will be discovered to replace reserves currently being developed, produced and sold, or that if crude oil or natural gas reserves are found, they will be of a sufficient quantity to enable TotalFinaElf to recover the substantial sums of money incurred in their acquisition, discovery and development.

Developing oil fields, construction and drilling activities are subject to numerous risks, including the risk that no commercially productive crude oil or natural gas reservoirs will be encountered. The cost of drilling, completing and operating wells is often uncertain. TotalFinaElf's operations may be curtailed, delayed or cancelled as a result of numerous factors including title problems, weather conditions, compliance with governmental requirements and shortages or delays in the delivery of equipment.

Risks Related to Downstream and Chemicals Operations

TotalFinaElf's downstream and chemicals businesses are subject to significant governmental regulation, particularly in the areas of antitrust and competition regulation, environmental protection and industrial safety. Operational risks can vary widely in nature, insofar as they arise in diverse sectors of activity, such as refining and petrochemicals, intermediate chemicals, and performance and specialty chemicals. Among these operational risks are the risks of explosions or fires involving hydrocarbons or petroleum or chemical products. Likewise, the nature of operational risks arising from transportation depends not only on potential hazards from the type of product transported but also on the means of transportation employed (such as pipelines, shipping whether by sea or river, rail or road), and the quantities of product involved.

TotalFinaElf seeks to minimize the risks inherent in these activities by putting in place a dedicated internal organization, systems of quality management, and safety and environmental management systems, and by conducting rigorous audits and maintaining a pro-active investment program. In addition, taking into account the wide variety of products transported, the chemicals branch seeks to ensure that its products are stocked, conditioned, handled and transported under the best safety conditions available, using service providers selected according to criteria established by professional organizations.

TotalFinaElf maintains insurance against some of such risks and losses, but our insurance will not be adequate to cover all potential hazards inherent in these businesses. In addition, our refining and chemicals activities are subject to wide fluctuations in supply and demand in various markets, resulting in earnings volatility. Some of our products are also subject to commercial risk from product liability claims, such as claims regarding defective products.

Although we believe that any reasonably foreseeable costs and liabilities associated with the foregoing matters will not have a material adverse effect on our consolidated financial position, results of operation or liquidity, there can be no assurance that such costs and liabilities would not have an adverse effect on our business and operations in the future.

Grande Paroisse

An explosion occurred at one of Grande Paroisse's industrial site in Toulouse, France on September 21, 2001. Grande Paroisse, an indirect 79.85% held subsidiary of the Company, is principally engaged in the production and sale of agricultural fertilizers. The explosion, which involved a stockpile of ammonium nitrate pellets, destroyed a portion of the site and caused the deaths of 30 people and injuries to many others. Significant damage was inflicted on a portion of the City of Toulouse. All production activity immediately ceased and the site was placed under a strict security regime.

Investigations regarding the cause of the explosion are still underway. Pursuant to Article 1384 paragraph 1 of the French civil code, Grande Paroisse is presumed to bear sole liability in the first instance, creating an obligation on Grande Paroisse to bear the entire obligation to indemnify damage to third parties (e.g., physical, material and other) caused by the explosion, unless this presumption is ultimately refuted. At this preliminary stage of the proceedings, the Group estimates that the amount of third party claims could reach approximately 1.8 B€, exceeding by 0.95 B€ the Group's 0.85 B€ civil liability insurance coverage. A pre-tax charge of 941 M€ was registered in the accounts of the Company, with a resulting impact on Net Income for fiscal year 2001 of 597 M€. In April 2002, following several months of study and discussion, the Group decided it would not be practicable to reopen its Toulouse site. An additional pre-tax provision in the amount of 153 M€ (after tax amount of 102 M€) was accrued in the consolidated financial statements for the fiscal quarter ended March 31, 2002.

Antitrust Investigations

During 2000, Atofina Chemicals, Inc., a U.S. affiliate of the Company, became the subject of an investigation by the United States Department of Justice ("DOJ"), following the issuance of three subpoenas issued by a grand jury empanelled by the United States District Court of the Northern District of California, regarding certain practices in the chemical industry, to determine whether such practices were in violation of civil and/or criminal laws. A similar investigation covering practices of Atofina S.A. relating to certain chemical products was commenced in 2000 by the European commission. In early 2002, Atofina S.A. entered into a settlement with the DOJ pursuant to which it agreed to pay a fine of \$8.5 M. Moreover, three of the employees of Atofina S.A. are the subject of criminal proceedings. Certain companies within the Group have become the subject of civil proceedings.

While it is not feasible to predict the outcome of the pending claims, proceedings, and investigations described above in connection with Grande Paroisse and Atofina with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on the Company's financial position, cash flows, or results of operations.

Risks Related to the Environment

TotalFinaElf is subject to extensive environmental laws and regulations concerning land use, air emissions, discharges to waters and the generation, handling, storage, transportation, treatment and disposal of waste materials. Although environmental laws and regulations have an increasing impact on TotalFinaElf's operations in almost all of the countries in which it operates, it is impossible to predict accurately the effect of future developments in such laws and regulations on TotalFinaElf's future earnings and operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of TotalFinaElf, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred. However, TotalFinaElf does not currently expect any material adverse effect upon its consolidated financial position as a result of compliance with such laws and regulations.

Sinking of the Erika Tanker

In 2001, following the sinking of the Erika petroleum tanker which was transporting products belonging to the Group, the Company continued, and nearly completed, the cleaning of the coastline, acting through the Atlantic Coast Task Force. The treatment of the waste removed during the cleaning process required the construction of an industrial treatment center. The perfection of the treatment process has been delayed due to the need to perform some additional technical studies. It is anticipated that it will take about one year to finish treating the waste.

TotalFinaElf, as a legal entity, as well as five of its employees, have become the subject of a criminal investigation undertaken by a Paris criminal court (Tribunal de Grande Instance de Paris) of the sinking and the resulting pollution. This investigation is still underway. TotalFinaElf believes that the accusations against it and its employees are without merit both in fact and in law.

Insurance Practices

The Group maintains insurance coverage relating principally to industrial risks, civil liability and other risks and liabilities pertaining to its businesses in amounts and of a nature management believes are adequate. Primary coverage is either retained, in the form of deductibles or self insurance, or purchased from internationally recognized insurance companies.

Other Risks

Risks Related to Competition

There is strong competition both within the oil industry and with other industries in supplying the energy needs of industry and consumers. TotalFinaElf encounters strong competition from other major oil companies in acquiring properties and leases for the exploration for, and production of, crude oil and natural gas. Competition is particularly intense with respect to the acquisition of desirable undeveloped crude oil and natural gas properties.

Risks Related to Integration of PetroFina and Elf Aquitaine

TotalFinaElf has substantially increased its operations through the combinations with PetroFina and Elf Aquitaine in 1999 and 2000, respectively. These transactions have required and will require TotalFinaElf to integrate businesses that have previously been operated separately and that together are substantial in scope and size relative to its historic activities. TotalFinaElf has already realized a large portion of the expected synergies from the integration of these activities and continues to pursue integration successfully. However, there can be no assurance that all of the expected cost savings, synergies and operational improvements will be realized.

ITEM 4. INFORMATION ON THE COMPANY**A. HISTORY AND DEVELOPMENT OF THE COMPANY**

TotalFinaElf, a French *société anonyme*, together with its subsidiaries and affiliates, is one of the five largest publicly-traded integrated oil and gas companies in the world with operations in more than 120 countries. The Company was incorporated on March 28, 1924 and has a duration until March 22, 2099, unless earlier dissolved or extended to a later date. 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 Petrochemicals and plastics, Intermediates and performance polymers and Specialty chemicals for industrial and consumer use. In addition, TotalFinaElf has interests in coal mining and in cogeneration and electricity sectors. Until June 1999, the Company operated under the name Total. From June 1999 to March 2000, the Company operated under the name TotalFina.

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 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.

The Company’s strategy is to grow and to improve the profitability of its upstream segment; to reinforce its position as one of the leaders in the worldwide natural gas and LNG markets; to consolidate its position in the European downstream business, while developing its interests in rapidly growing markets (such as the Mediterranean Basin, Africa and Far East); and to rationalize its chemicals portfolio giving priority to improving profitability, expanding petrochemical operations and growing selectively Intermediates and Specialties.

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

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 (Article 215 of Rule 99-02). In addition, we have included operational and financial data of TotalFinaElf, including Elf Aquitaine, for 1999 on a pro forma basis, in order to enable us and the reader to make more meaningful comparisons of year-to-year data for the combined company.

B. BUSINESS OVERVIEW

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

- Upstream,
- Downstream,
- 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 trading. The Chemicals segment includes Petrochemicals and plastics, which are linked to TotalFinaElf’s refining activities, Intermediates and performance polymers, as well as Specialties, which include rubber processing, resins, paints, adhesives and electroplating.