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### **TECHNIP-COFLEXIP**

## ***First Quarter 2003 Results Conference Call***



*Global Excellence in Teleconferencing*



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# Introduction

## Daniel Valot

OK thank you, good morning all of you. I would like to make a few comments. First of all our numbers for this first quarter and then our perspectives for the remainder of the year and the near future. First on our first quarter numbers. They are broadly in line with our expectations and a bit higher than the consensus. These numbers show significant improvement over the first quarter 2002 which was expected because as you may remember our first quarter 2002 had been relatively disappointing especially in our offshore branch.

The summary of the main numbers can be made as follows. Revenues are up 2%, they would have been up 14% on a comparable basis meaning with the same exchange rates and the same perimeter as last year. EBITA is 30% up, EBITA margin is 4%, it would have been 5% on a comparable basis and this has to be compared to 3.1% during first quarter 2002 so it's a significant improvement. Net income prior to goodwill amortisation is up 46% and the bottom line, which is the net income after goodwill is a loss reduced to €3.5 million in French GAAP, much lower than the €13.3 million we had during the first quarter 2002.

We also generated a strong cash flow from operations at €64 million and our gearing is stabilised at around 25% compared to more than 40% one year ago. I'd like to remind you that we have much reduced debt, that net debt is around €500 million with a very low cost. The cash cost is 2%, the accounting cost is 3.3% and we have no significant repayments scheduled before the end of 2006.

I think it's important to underline that these better numbers have been achieved in spite of some negative factors.

- First negative factor is the decline in the value of the US dollar and the British pound compared to what they were one year ago, the decline in the US dollar was 23%, decline in British pound was 10%, so this had a significant impact on our numbers, and nevertheless our numbers expressed in euros are much better than last year.
- Second thing I'd like to point out also is that the relative share of our SURF business in our business has been down, for instance in the full year 2002 the SURF business made up to 59% of our offshore revenues, it is now during this first quarter reduced to 54%. So it's a significant decline and as you remember these SURF activities generally generates better margin than the rest of the business.

So how did we achieve these better numbers? I would quote four factors,

1. first higher operating margins, especially in Offshore and Industries, while the recovery for Onshore Downstream margins is expected to take place starting second half of this year.
2. We had also lower capital costs. Our depreciation is 22% lower than in first quarter 2002 thanks to capex discipline, asset sales made last year and lower dollar and sterling value, pound value compared to the euro.
3. Third we have lower financial costs, cash financial costs stand at €6.6 million which are 50% of what they were one year ago, thanks to net debt strong reduction in the last 12 months, and also the fact that we have no more foreign exchange losses in Brazil, you remember probably we suffered from foreign exchange losses in Brazil last year because of the accounting currency that we had in place at this time in Brazil, we changed the rules of the game and we are now in a much better position.
4. And the fourth factor is a lower goodwill amortisation burden, thanks mainly to the settlement we reached with Aker, you remember that we closed the problem that we had with Aker on the sale of Aker Deepwater for a value of \$44 million of which \$34 million was already paid.

So that's the broad picture for this first quarter, now what is next? I believe we have much better perspectives for this group in 2004/2005, thanks mainly to the increase in backlog which has been 5% over the quarter, in spite of the impact of lower once again dollar and pound versus the euro.

Increase so far has come from the Onshore activities, Offshore the SURF backlog has been flat during this quarter while the floaters and fixed platforms the backlog has been down. However we expect a very sharp increase in the Offshore backlog both for SURF and platforms and floaters and fixed during the second quarter thanks to the two Dalia contracts which were awarded to us in April for value for our share which is around €780 million. And other contracts which are on their way for a combined value of around \$1 billion.

It's important I believe at this juncture to stress that in order to get those contracts we didn't have to relax our bidding discipline and we didn't have to lower our margin requirements, therefore our new backlog is not only large, more than 16 months' revenues, it is also high quality backlog. And this bodes well for a significant improvement in performance for the whole group in 2004/2005.

As usual I would assume that the main topics for the financial community will be to figure out what could be our performance short term over the next two or three quarters. On this topic I would like to say three things.

1. First, and this is something we will have to stress on a regular basis, quarterly numbers in our industry are not extremely meaningful, our job is to execute contracts which are most of the time long term contracts spread over two to four years, so a specific quarter can be good or bad and it would be very difficult to extrapolate from one specific quarter to the rest of the year.
2. Second, our guidance for 2003 was as follows. Based on the exchange rates that were prevailing early January 2003 we said we are expecting a 5% growth in revenues on the full year compared to the year 2002 with operating income growing two times faster, and net income growing three times faster. We also pointed out that each time there was a decline of 5% in the value of the dollar versus the euro, this would have a negative impact of something between 1% to 2% on our revenues and operating income. We don't see any reason today to change those assumptions and therefore to change the guidance.
3. Third, I believe we all have, when I say we all it's both you and us, to be very careful about regarding forecast in 2003. It's true that a very large uncertainty has been removed lately with the achievement of war in Iraq, nevertheless there are new uncertainties coming in, the after war in Iraq is not something extremely clear today, but we have also more terrorist actions taking place in various countries in the Middle East and in North Africa. We have the Sars epidemic developing in the Far East and as you probably remember we have today in China a backlog of about \$500 million for petrochemical facilities, mostly in the Shanghai area, so will this epidemic get under control or completely out of control? If it goes completely out of control it could have a negative impact on our business in this region, so far it did not have any negative impact, but we don't know. And of course the most important uncertainties about the foreign exchange fluctuations for the rest of 2003, all that comes in addition to the usual batch of risks we have to manage in the company.

Therefore while keeping unchanged our guidance for 2003 I would personally recommend that we remain extremely cautious regarding the level of revenues and margins of the group for the coming quarters. And now a final word and a kind of conclusion on something which I believe is very important, it's the award of the Dalia contracts and our expectations on other large offshore contracts. This is I believe extremely important, it shows that 18 months after we started integrating the teams of Technip, Aker Deepwater and Coflexip, something is taking place, success is coming. We are all in the company very satisfied to demonstrate that the goals we set for ourselves when we embarked on these mergers are now starting to be reached.

So that's the extent of my comments, and I am now ready together with my colleagues to answer your questions. Thank you.

## Q&A

### **Rory Stewart - Simmons & Company**

**Hi. First off, congratulations on a decent quarter and the recent Dalia awards. It sure helps get that monkey off your back. In terms of the Dalia contract, can you talk a little bit about the technology innovations that are going to have to be applied for the first time on that contract, and then also just the next few contracts that you see over the next three to six months that are going to be coming out the block for award from operators. Thanks.**

### **Daniel Valot**

OK, when you mentioned technological innovations you were talking about the Dalia contract, right? OK, so on the Dalia contract, Ivan Replumaz will comment on the technological innovation we are putting forward for this contract which is mostly related to what we call the integrated production bundle for which you have a quick description on the web site in the presentation we sent today. So perhaps Ivan you can comment on that?

### **Ivan Replumaz**

The technological innovation is what we call the IPB integration production bundle which will be the risers which will bring the fluid from the bottom of the sea to the surface to the FPSO, and these risers are the competition to the risers which are used by our competition on Girassol. And we will engineer and fabricate these risers in Le Trait in Normandy, and then we will install them onsite, and what I can say that technologically it's a first in terms of engineering and fabrication, we have already worked a lot on these technological items as they were proposed for Girassol a number of years ago. And secondly, they are much easier to install than the riser towers which were used on Girassol. The other innovation which is not technological but innovation for Dalia will be the fact that we will fabricate the umbilicals, large portion of umbilicals in Angola in our Lobito factory, in Angoflex, and that we will install in Angola a spool base to be able to weld the pipeline in Angola and then to reel them on our vessel and lay them on the floor.

### **Daniel Valot**

OK, other question was about the major contracts we are expecting for the coming months, as always being a contractor we tend to be rather superstitious and not to quote contracts which are still under final negotiation or at the bidding stage. What we can say is that we are expecting to get relatively large offshore contracts in Nigeria and in Egypt in the coming weeks, we are also bidding on some other major projects especially in Angola for this year, and we are also pursuing some projects in Brazil for major offshore developments. So that's what is on our table for the coming months in the offshore branch.

In the Onshore and Downstream as usual a lot of mega projects in the Middle East including the Dolphin project which we are following very closely and also probably some good news on one project which we have been following for quite some time now which is the new refinery in Vietnam for which it seems that the long protracted negotiations we had for several months now might come up to an award in the not so distant future. So that's basically what we are pursuing, that we have plenty on our plate coming with the backlog of the first quarter. We have been awarded large contracts since the first quarter but we are also bidding on very large things for the coming months.

### **Stéphane Bensoussan – Exane**

**Yes hello ?. First one question on the earnings on taxes. It seems that taxing is maybe higher than usual. Could you explain why and give an indication for the rest of the year.**

### **Daniel Valot**

Olivier?

### **Olivier Dubois**

Yes. In fact the tax rate for the first quarter is higher than expected. It is due to the fact that in front of the poor performance we had in the United States we decided not to increase the deferred tax asset in the United States. That means that there is no compensation between profit and losses which are made in different countries. OK?

**Stéphane Bensoussan – Exane**

**OK. On the Onshore Downstream margins, you said you expect an increase in the second half. Does that mean that margin will be simply better than the 4.6% we have in the first quarter from this division?**

**Daniel Valot**

You know, we had several times the opportunity to give explanations on that. The margins which will be recognised in our P&L during the second quarter, the third quarter, the fourth quarter, can be anticipated to a very large extent. It is closely linked to the accounting method we have in this company which is that for large lump sum turnkey charge we have low margin, we have no margin recognition during the beginning of the project, relatively low margin recognition during the first half of the project and most of the margins come when we are close to the completion of the project. So that's something which is probably not used by all our competitors which rather recognised the margins on a linear basis.

The experience and history has told us that it's probably better to do this kind of progressive recognition of margins. So based on our portfolio of contracts and their maturity we were at the beginning of this year able to predict that our margins on the onshore and downstream activity would be relatively flat compared to last year during the first half and that we would show some better margin recognition starting in the second half. And even more so in 2004. So yes we are expecting for the second half of the year a better EBITA margin ratio for the Onshore activities than the one we had during the first half.

**Stéphane Bensoussan – Exane**

**Thank you. And just one last question, could you give the share of the British pound in yourself and do you have a big mismatch between sales in the British pound and cost in British pound?**

**Daniel Valot**

Well the share of the British pound in our revenues is around 10% today. You can say that the share of the US dollar and currencies more or less closely fixed, related to the US dollar is about 30%. So do we have any strong imbalance between our costs in the structure in pounds and our revenues, I don't think so.

**Thomas Martin - CSFB**

**I was wondering if you would be able to give us some breakdown regarding the extra €1.8 billion of contracts that you've signed regarding the estimated delivery years.**

**Daniel Valot**

Estimated delivery years?

**Thomas Martin - CSFB**

Yes.

**Daniel Valot**

So the 1.1 is made up basically of Dalia on one side, we've only listed the major contracts and of course there are a few others which are a smaller size. So there is the Dalia contract for which the completion date is 2006 and the Nayad or now it has been renamed North East Bab project in Abu Dhabi which is a three year contract.

**Thomas Martin - CSFB**

**And on Dalia are you saying that you expect full contract value to be realised in '06 or will you be realising some in '04 and some in '05 also?**

**Olivier Dubois**

Yes can I respond on Dalia for the first. We will have revenues roughly of 5% in 2003, 25% in 2004 and 70% in 2005 and onwards. And when we start fabricating the flexible on Dalia on the second half of 2004. And concerning the FPSO we will have 15% of revenues in 2003, approximately 25% in 2004 and the rest in 2005 and onwards.

**Jean-Luc Romain- CIC Securities**

*I have two questions, the first is on the loss on the contract for Coflexip. Can you give the exact amounts and were there other risks identified at the time of the merger of provisions. The second question is one about the movements in provisions, notations and others in the second quarter. I have then more questions related to Dalia. I was wondering if flexible flow lines which will be built in Le Trait were sold in euros or dollars.*

**Daniel Valot**

OK, first on this provision which was made in the accounts of Coflexip regarding pipe laying contracts. We don't want to disclose the exact amount of this provision and we don't want to give any more details on this contract just because it's a contract for which the execution is starting. You can imagine that for confidentiality reasons we don't want to give to the client the idea that we've already accepted to suffer a major loss and that there will long discussions with these clients. So at this stage I think it would be contrary to the interests of the company to give any more details on this matter.

**Jean-Luc Romain - CIC Securities**

OK.

**Daniel Valot**

Even if it's a bit sad for your natural curiosity, but the interests of the company have to be protected first.

**Jean-Luc Romain – CIC Securities**

No problem with that.

**Daniel Valot**

OK the second question on the Dalia contract. The Dalia contracts are expressed in dollars, right.

**Olivier Dubois**

But we have hedged ?? so it's, the fact that we have hedged most of the cost for the flexible fabrication in Europe because it ?? and with buying fewer raw materials in Europe we have hedged properly the exposure.

**Jean-Luc Romain - CIC Securities**

*OK. As regards general risks and other contracts, there were some movements in provisions?*

**Daniel Valot**

Well no overall, the overall amount of provisions in our accounts is extremely flat compared to what it was at the end of last year.

**Charles Lesser - UBS**

*Two questions, returning again to exchange rates I'm afraid. I wanted to ask what exchange rate numbers you are using in the backlog disclosure and for the backlog scheduling. Is that still the 104 rate that you used at the start of the year. And secondly can you give some sense of what sensitivity your capex has to exchange rate movements, is there any at all?*

**Daniel Valot**

So regarding the backlog, we revaluated the value in euros of the backlog month after month so that for instance during this first quarter 2003 we had to make a negative adjustment in excess of €100 million on the value of the backlog to take care of this change in the value of the dollar, pound and other currencies. So it's an amount which is quarter after quarter readjusted to take into account the last value of those currencies. Does that answer your question?

**Charles Lesser - UBS**

Yes, if that's true for the backlog scheduling too, then that answers that question.

**Daniel Valot**

For the backlog scheduling, well it's based on the progress we are expecting on the contracts. So it's a scheduling which is made on a technical basis and it's obvious that if there were a major change in the value of the several currencies over time that would affect long run the scheduling of the backlog. But it's impossible to predict so we make it at the end of the first quarter 2003 based on the prevailing exchange rates which have been updated compared to what they were at the end of 2003. But obviously we cannot predict what will be the value of the dollar tomorrow or in 2004 or 2005. OK?

**Charles Lesser - UBS**  
**OK. And on capex?**

**Olivier Dubois**

On capex what was your question, sorry?

**Charles Lesser - UBS**  
**How sensitive is your capex projections to movements in exchange rates?**

**Daniel Valot**

Oh we have a big portion of our capex which is expressed in pounds since most of the capex are related to the fleet. So I don't have the exact number in mind, I don't know if any of my colleagues has that in mind but I would say that most of our capex are linked to the value of the British pound much more than the euro or the US dollar.

**Dominique Patry - CAI Chevreux**  
**I was wondering now that you have booked Dalia do you have more visibility on the timing of the delivery of the synergies that you were targeting when you took over Coflexip since the synergies were mainly related procurement cost**

**Daniel Valot**

Well I would be inclined to say that this \$780 million business is a synergy. We would probably never have gained those contracts if we had remained Technip on one side and Coflexip on the other side. So I don't know today how much of that will translate into the bottom line because we will see at the end of the execution of this contract how much it is contributed to our margins. I think it will be a good contributor. What you can say at least in terms of business activity that this \$800 million or about \$800 million is a synergy.

**Dominique Patry - CAI Chevreux**  
**Yes, but I was more referring to the cost synergies that you were targeting at the time.**

**Daniel Valot**

Well we will again do an update on the cost synergies at the end of the year. I don't think it would be very wise to start throwing numbers quarter after quarter on that. It's something you have to look at on a yearly basis.

**Dominique Patry - CAI Chevreux**  
**OK. I had another question regarding the competitive landscape because on one side you have the negative influence of exchange rate fluctuation but on the other side some of your competitors maybe are less aggressive than they used to be. So could you comment on that please?**

**Daniel Valot**

Well this is exactly true. I think it's a very good remark. From an outsider standpoint you could say that each time we have the US dollar going down a slot, it has been going down in the past 12 months, it has been declining by about 25%, you can say that this is a very bad blow for competitiveness. Seen from outside. But in fact things are a little bit more complex than that. And the fact that some of our competitors, especially US competitors, are not in very good financial shape, is probably more important in terms of being able to grab new business than the mere impact of currency fluctuations.

I'd like to remind the listeners that the impact of the foreign exchange fluctuations is not as big probably on our competitiveness as you would say from outside. It's true we are mostly a European based company although we have now large businesses in the US and in the Far East, but the value

of the, the relative value of the euro versus the dollar is very important in terms of our internal costs. I mean engineering costs. It is much less important if you look at the total value of the contracts because once again the engineering itself is a relatively small component of the value of the contracts. So the rest of it is made from external purchases and we have some flexibility to source our purchases from this or that country based among other items on the currency fluctuations.

So I would say that probably if we've been able in the past 12 months to achieve significant gains in market share, since we've been increasing our order intake substantially compared to a lot of other guys, is mostly linked to the fact that a number of our competitors are now in such no longer in such an aggressive mode as they were before because they have to swallow their losses and try to recover from a distressed financial position.

And also I would add to that that it's not only the fact that their own aggressiveness could go down, it's also the fact that we've probably over this past 12 months, gained in credibility in the eyes of the customers. Now the big customers, the big oil companies look at us as a strong contractor able to undertake large contracts without too many risks for them. Because they know we are in a financially strong position, they know and they can see that now the teams are integrated we are able to put on the project some very good teams. They all know that, they recognise that. So it's not only a matter of being financially stronger than the others, it's also the fact of getting better recognition from the customers.

**Dominique Patry - CAI Chevreux**

**OK, thank you I had a final question if I may. During the quarter you had a huge change in the working capital change in the cash flow statement. I know that it's not always really meaningful during one quarter, but could you explain that and maybe give us a guidance for the year 2003. Thank you.**

**Daniel Valot**

Well thank you for this question, it's a very good one too. You probably remember that last year was a bit exceptional in terms of working capitals in the sense that our working capital provided to the company additional resources in the range of, if I remember, €150 million, or €200 million. And we said at this time that this was a bit exceptional, a bit on the high side, it was mostly linked to the fact that while our business was relatively slow, our order intake was very big. And the order intake was mostly because we had a number of contracts signed in 2000 and 2001 which came into force in 2002. And then triggered the down payments which helped improve our working capital. So we said that this €200 million change was extremely positive, probably a bit exceptional and that the year 2003 would be less favourable. Once again as you pointed out on one single quarter the change is not very meaningful, so for this first quarter it's a negative change. For the full year, difficult to make a forecast in this area, I would say we are still expecting to have a positive change probably much lower than last year.

**Mick Pickup - Lehman Brothers**

**Just a few quick clear up questions gentlemen. Can you just tell me how much a spool base costs, it's a small figure I assume it's just a couple of million dollars if that. And secondly on the outlook for Spars going forward, reading through the news, there seems to be little in the way of Spar contracts coming through or on the horizon, can you tell me if there is anything coming through from the independents for the smaller cell Spars or are there any big ones out there I'm missing, thank you.**

**Daniel Valot**

OK, your first question related to the cost of the spool base in Angola.

**Ivan Replumaz**

Well I don't think we are going to give you the detailed cost of the spool base. Obviously we've put in our price corresponding portion for the amortisation on this specific contract, but if there is any more cost it is not going to be an extremely sophisticated spool base, we just adapt it to the need of the Dalia contract and probably will use it again on future contracts in Angola as well. Concerning the Spar outlook, it's true that the Spar outlook so far is not very, very promising, there are a few potential jobs in the Far East which are under qualification at the moment, there could be some jobs in the Gulf of Mexico, you know the Gulf of Mexico market is reacting very quickly as platform ??, at the moment

there are not so many Spars under tender in the Gulf of Mexico, it could change very quickly so we are of course well-positioned, we have our clients in the Gulf of Mexico, we know our capability in fabricating Spars in Finland for instance, so we are waiting for the client's decision.

**Lionel Charmetant - Morgan Stanley**

***Good morning. I have two questions. The first one is related to your pre-backlog level. I was wondering how confident you were to your ability to convert the pre-backlog into backlog in the second quarter. And the second question is about the level of pricing you're seeing in West Africa on the big contracts you stated you were negotiating right now.***

**Daniel Valot**

OK. First on the pre-backlog. Pre-backlog at the end of the quarter is around €700 million, it's a much more manageable level than the one we had one year ago, you remember we started in the year 2000 with a huge pre-backlog of €1.5 billion and that created a lot of uncertainties on the schedule of our revenues and margins. So today this €700 million, at which speed will that be converted into actual backlog, frankly speaking I don't know.

We have the most important portion is the contract awarded by Pechiney for the aluminium smelter in South Africa, and on that the putting into force of this contract is not really in our hands, it's linked to the fact that Pechiney is attracting some other shareholders in this new venture and my understanding is that they have already reached an agreement for about 80% of what they need, the remainder, the last 20% they are working on it, so it's based, it's their effort and not ours, it's not under our control. Our best expectation is that this contract could come into force towards the end of this year or early next year, it will be probably a relatively slow process which doesn't mean that we are doing nothing on this contract, because as happens a lot of times with those contracts which are in the so-called pre-backlog, the owner puts on the table a few million bucks so that the engineering contractor can start working on the engineering. So we are already working on this contract but it's not big beans and we don't expect very quick coming into force of this contract.

The second one is the steam cracker in Iran, usually between signature and coming into force of those contracts in Iran which are projects for which the financing is arranged through ?? agencies, it's relatively slow bureaucratic process, it could be something between 6 and 18 months I would say. And the last one, the SECCO project in China is already in force, and the last one is for our share, \$160 million, it's already in force so it's in the backlog in the second quarter.

Oh, yes, the level of pricing on the contracts we are taking today? That was your second question? Oh West Africa. Well you probably remember what happened last year. We were looked at as the loser because we were not able to make a big announcement on a major West African deep offshore projects. And we said that we would not take any of those projects as long as the margin level was not up to our requirements. So what I can say today is that the contracts we are taking are contracts which are in line with our margin requirements.

**Olivier Dubois**

On top of that we can add that Dalia will have the advantage of getting ?? for our factory and for our ??. Good visibility for ??.

**Lionel Charmetant - Morgan Stanley**

***OK, and maybe if I may one last question on the outlook for the utilisation of the Deep Blue in 2003. It was presumably to work on the Dalia contract in '04 and '05, but for 2003 what is the outlook for the utilisation?***

**Daniel Valot**

I would say that as you probably remember the Deep Blue had a rather low utilisation rate in 2002, it will be much, much better in 2003.

**Lionel Charmetant - Morgan Stanley**

OK.

**Ivan Replumaz**

Just for the sake of clarity, the Deep Blue will work on Dalia in 2005 and 2006 and not 2004.

**Loïc Pelochet - ABN Amro**

***Good morning gentlemen. I just have two quick questions. First of all can you explain a bit, give a bit more detail on the extraordinary result, the 3.5 million exceptional income based scheme and if you can detail that a bit. And secondly a question about capacity utilisation of your yard in Finland and at the moment, and given the relative lack of activity in Spars would you expect that to be going forward.***

**Daniel Valot**

Most of the positive exceptional income of this quarter relates to a capital gain on the disposal of our headquarters in Paris. You know we disposed of these headquarters mainly because we wanted to put all the teams in one single building, so we sold this building, we are getting out of the lease with the other buildings and we have taken a new building on lease and the teams will start moving in this new tower in the coming weeks. This asset sale was completed at a price of around €100 million on which we got €10 million down payment and the remainder will be paid at the end of this year. Your second question was about Finland? The yard in Finland is extremely busy right now working on the Spars, on the Mad Dog and the Holstein Spars, and the rate of utilisation will start going down in the third quarter and if we had, if we get no additional business in the coming months it will be a very low utilisation rate during the fourth quarter.

**Loïc Pelochet - ABN Amro**

***Right, would you then have to undertake restructuring measures or,***

**Daniel Valot**

We'll have probably to reduce the workforce quite substantially. Then it's important to remember that in Finland there is a system in place under which there is a contribution, a very large contribution from the social system to help during these lay-offs. So once again if we don't get any additional business very shortly for this yard we will have to reduce the workforce substantially, but the burden of our own financial situation will be relatively limited.

**Duncan Goodwin - Merrill Lynch**

***I wondered if you could provide a bit of an update on upcoming contracts in the gas to liquids area, ?? a few contracts that were pending.***

**Daniel Valot**

OK, perhaps Jean Deseilligny can answer this question.

**Jean Deseilligny**

For the time being there is one ?? project in gas to liquids which is a project in Nigeria, which has the same capacity as the one we have got in Qatar and which is now in the bidding process for a decision which would be taken early 2003. 2004 sorry. There are other prospects, discussions by international companies either in Qatar or in Iran, but nothing already fixed at this time.

**Stéphane Bensoussan – Exane**

***On the offshore division, you have mentioned for the first quarter some low level of activity in the North Sea and Gulf of Mexico to explain maybe a below 10% EBITDA margin. What is your expectation on those two markets for the rest of the year and would you be able to achieve better margin in the offshore division?***

**Daniel Valot**

Well I would say that in the North Sea the pattern now is very clear. There is not much business during the winter season. The fleet is large enough so that the owners do not take the risk of having jobs executed during the winter season, they concentrate, the execution of jobs during the best season. So we do expect to have much better activity during the third and fourth quarter and probably again a lower level of activity during the second and third quarter, sorry, and again a lower level of activity during the fourth quarter. This is a trend which has been developing in the recent past and which is now very well established. In the Gulf of Mexico frankly speaking it's much more difficult to predict as Ivan said, Gulf of Mexico is quite unpredictable, today you've got the feeling that the market is very, very poor but tomorrow morning there can be several projects popping up and coming on the table. So I wouldn't make any forecast except that our yard in Corpus Christi is very busy, much more

than it was last year, it has taken a number of jobs in the recent past so the utilisation rate of the yard is much better this year than it was last year. But for the rest of the business, meaning well mostly the Spars, it's very difficult to make any significant forecast.

**Stéphane Bensoussan – Exane**

***One other question on the Offshore. Has Dalia, have the Dalia contracts will especially contribute maybe in 2005 to 2006, and your other backlog for next year in the Offshore is something like €500 million to €600 million below what was the same level last year. Should we expect a significant decrease in the level of activity next year in the Offshore division or is it too soon to answer that question?***

**Ivan Replumaz**

Well I don't think we should expect a very big change to occur, because in those key markets is still there and we are getting contracts on a regular basis in the North Sea and Norway and in the UK, and in West Africa we have already some work for 2004. So even if Dalia is coming more in 2005 and 2006 I don't see why we should have for the moment a decrease of activity in 2004 for the Offshore ??, rather the contrary in my point of view.

**Stéphane Bensoussan – Exane**

***Thank you. One last question on the Onshore division, the order backlog is very high, but especially in the Middle East, does that mean that you have a problem of not enough activity in Asia and Europe and are those two areas loss-making for the Onshore division, and are you able to shift the work log from Middle East to Asia or Europe?***

**Daniel Valot**

Well I'll tell you something which will probably surprise you which is that we love this business in the Middle East. So we are not concerned by the fact that we have too much business in the Middle East and we would like to reduce it and make it grow in other regions. We love it, we love it. We have, well let's face it it's two thirds of the oil reserves in the world, it's a very substantial portion of the gas reserves, it's countries in which today we are a well-established player, we have a lot of credibility when you talk to people in Saudi Aramco or ADNOC or in Iran, they look at us as a very reliable contractor, so there is plenty of business in the Middle East. We have a very high success ratio in the bids we are making and we love it. And it's a good margin business. So of course we would like also to grow the business in other regions, in Europe or in the Far East.

The reality today is that there are good prospects in the Far East, the business in Europe is much more limited. I'm not saying that we don't take more business in Europe or in the Far East because that would be losers, you said in your question, perhaps you don't want to grow your business in Europe because you are losing money in this region. No, we are not losing money in those businesses but there are not so many opportunities in Europe or in the US. You know in the Onshore Downstream arena it's mostly related to refining and petrochemicals, there is no significant capital spending in refining or petrochemicals in OECD countries, be it Western Europe or the US. So we have to go where the business is, most of the business is today for us in the Onshore division located in the Middle East and in China, so you can probably say that it's countries or regions with a rather high level of risk, political risk in the Middle East, today this health risk in China, but over time it has been good regions for us so we are very happy with this structure of our business.

**Keith Morris - BNP Paribas**

***Good morning. Regarding the tying up of the loose ends with the merger between yourselves and Coflexip, can you say something about the timing when you think that might be completed, and also whether there are any corporate benefits associated with tying up these loose ends and having a single corporate structure.***

**Daniel Valot**

Well today we have a single corporate structure, what we don't have is the flexibility to move assets from one company to another, one because we have to take care of the minority shareholders in Coflexip even if they are less than 1.5% of the capital of Coflexip. Why do we do this full merger now and not before? Well, because you cannot do everything at the same time. If we had decided to make a squeeze out immediately after the takeover bid it would have been at an expensive price, and we thought it was inappropriate, so we are making it now. It would be a rather small dilution for

Technip-Coflexip shareholders, in the range of 1.5% of the existing capital so it will be an exchange in paper with a very low dilution, and we expect from it some significant benefits. First we will no longer have the cost of the listing of Coflexip, today Coflexip is still a listed company, at least on the Paris Stock Exchange, but also we'll be now able to restructure our affiliates overseas, possibly to merge affiliates coming from Technip and Coflexip in order to achieve reductions in overheads and better tax optimisation which is something which we couldn't do up to now. So yes, we expect significant benefits from this move.

**Allard de Buijzer - Fortis Bank, Amsterdam**

***Good morning. First of all can you give me the utilisation rate of the fleet and how that compares to last year's numbers. And secondly maybe, Shell has announced it will start on the Sakhalin project, is that a project for which Technip will be bidding, and it's probably early days but can you say anything, when you expect those orders let's say?***

**Daniel Valot**

OK on the rate of utilisation of the fleet, it's ten points better than it was during first quarter 2002. You'll remember first quarter 2002 was very poor in terms of fleet utilisation. At 53% during the first quarter 2003 we are at 64%. This improvement has been made on the construction vessels not on the DSV vessel, on the diving support vessels in the North Sea for which we have a relatively poor utilisation rate for the reason I give before which is the seasonal factor in the North Sea. Now on Sakhalin, well Sakhalin is a project we have been following, we were in fact bidding on one big portion which was the pipeline and it seems that it's, it seems very much that we are losing this bid to a competitor which has been probably offering a better price than ours. We don't know about any final decision on that but it seems that we lost this one.

**Allard de Buijzer - Fortis Bank, Amsterdam**

NDL and cheap loans, is that also something?

**Daniel Valot**

No we were not bidding on the L&G.

**Allard de Buijzer - Fortis Bank, Amsterdam**

***OK, just another question, we spoke already about a tax rate, can you give a guidance for the remainder of the year?***

**Daniel Valot**

Well our tax rate year after year is something around 35%. The problem we have been forecasting for the full year is that it's very closely linked, we don't have any tax consolidation system, we pay the taxes where we make profits, where we make losses, those losses don't come as an offset for the gains we made in other countries. So it's a patchwork of countries in which we are securing contracts. If we at the end of the year make the best of our profits in relatively high tax countries you will see a high tax rate, if at the end of the year we make big losses in countries which are not matched by profits in the same countries, those losses won't come as an offset against the gains we make in other countries. So I think it's probably one of the things in our business which is the most difficult to predict. We can probably give you a fair idea of what would be probably the depreciation cost for the full year, the ?? ?? of course, we can give you also a relatively good idea of what is expected in terms of financial cost but the tax burden is rather more difficult to predict.

**Allard de Buijzer - Fortis Bank, Amsterdam**

***OK one final, let's say more political question. I heard from a Dutch oil service company that in parts of the US particularly Texas, after the Iraq war there has been a rather strong anti-French feeling. Have you felt anything in trying to negotiate with American oil companies that situation for your company, or French companies in general has become more difficult.***

**Daniel Valot**

No we have no such experience. On the contrary we have been negotiating with a very large US company, a large contract during this period of time and which we expect to be awarded shortly to us and the company I am talking about is one of the most truly American companies you can imagine. So I would say there is probably a big difference between the opinion of the man in the street and the things, people like the media, and business people for them I would probably safely say that the most

important is to check that the contractor they want to select has the abilities to do the job and is offering a good price and given them confidence that they can achieve the job according to schedule. The fact that we are French is, in my view, at least from what we have seen in the past week, is irrelevant.

***Duncan Goodwin - Merrill Lynch***

***I had a follow up question on Russia, obviously it sounds as if the pipeline project for Sakhalin will not be awarded to yourself. Do you see Russia strategically as an important area for future growth and do you feel that you are well positioned for future contracts or is there still maybe some things to be put in place in terms of local content etc in that region?***

**Daniel Valot**

Well to answer your question in a very broad sense, I would be surprised if in ten years from now we didn't generate much more business from Russia than we do today. It will probably take some time before we can develop some sizeable business in this area. For what reasons, well the main reason is that since the death of the Soviet Union the legal and tax environment in Russia is much more unstable than it was before so we've been a big player in Russia when it was called still the Soviet Union, we have not done much in the past ten years. I would assume things will improve and I don't think we need much more so called local content, we have already some local content, we have an affiliate in Saint Petersburg, I think it's probably, what is the key probably is for us to become more confident that we can do business in Russia with a good level of safety I would say. So we have been busy in the recent past for jobs developed by western companies, there are not so many, Sakhalin is one of the biggest. We have not been successful so far, we are not doing any significant business today for Russian companies and I would expect that as those companies become more western like players we would be able in the future to make, to do business for them.

Now there is another region which was part of the Soviet Union which is Central Asia, which is a different picture in which there are sizeable investments developed by western oil companies and on which we are taking some positions today for instance you are probably aware that BP is developing a major gas field in Azerbaijan called Shah Deniz and we have been successful to clinch the contract for the development of this field by offering a product which is a proprietary product of the company which is called TPG 500, and this has been awarded by BP to us and we are very proud of that and it will be when the negotiation is completed, a rather large contract for our company. We are also looking at what's happening in Kazakhstan and trying to get involved in the development of ?? and so I would say that the speed at which we will develop our business will probably be much bigger for Central Asia than it will be for Russia but I am confident that long term we will be much more active in Russia than we are today.

***Jean-Luc Romain – CIC Securities***

***In the presentation of full year results you said that you had book backed convertible bonds. I was wondering if you had book backed more in the first quarter?***

**Daniel Valot**

Yes we did, we purchased a relatively smaller amount during the first quarter. Mr ?? will give you more details.

**Participant**

During the first quarter of 2003 we have purchased about 137,

**Jean-Luc Romain – CIC Securities**

Sorry can you repeat that, we just had an indifference.

**Participant**

OK, I'll start again. During the first quarter of 2003, we purchased 137,000 convertible bond.



**Charles Lesser - UBS**

*Hello sorry to prolong this I just wanted to come back on tax. You mentioned just now it could be a 35% tax rate on the full year. I know it's difficult to predict but that does contrast with guidance given at the end of the fourth quarter of 31% to 31% full year tax rate which is going to improve that by 2% to 3% over the next couple of years. Given the sharp swing in the opposite direction, is that purely due to a sharp deterioration in the US business in the last three months, or what are the other changing parts in there?*

**Daniel Valot**

I would say talking under the control of Olivier Dubois the finance director the most important item has been probably the deterioration of our financial position in the US.

**Daniel Valot**

So if you have no more questions I just want to thank you for your attention. We will meet again probably next September for our second quarter results and meanwhile I do hope that we will be in a position to offer some additional good surprises to the market, thank you very much.

*END OF CONFERENCE*