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## TKP - Q1 2004 Technip Earnings Conference Call

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# FINAL TRANSCRIPT

TKP - Q1 2004 Technip Earnings Conference Call

## CORPORATE PARTICIPANTS

### **Christopher Welton**

*Technip - VP IR*

### **Daniel Valot**

*Technip - Chairman & CEO*

### **Oliver Dubois**

*Technip - CFO*

## CONFERENCE CALL PARTICIPANTS

### **Michael Carter**

*ING - Analyst*

### **Ruairidh Stewart**

*Simmons - Analyst*

### **Charles Lesser**

*UBS Warburg - Analyst*

### **Duncan Goodwin**

*Merrill Lynch - Analyst*

### **Dominique Petrie**

*- Analyst*

### **Nick Pakup**

*Lehman Brothers - Analyst*

### **Nick Griffin**

*Deutsche Bank - Analyst*

### **David Thomas**

*Commerzbank - Analyst*

### **Joe Mares**

*Morgan Stanley - Analyst*

## PRESENTATION

### **Operator**

Welcome to the Technip conference call for 2004 fourth quarter. This conference is being recorded. At this time all participants are in a listen-only mode. Later there will be a question-and-answer session. (OPERATOR INSTRUCTIONS) I would now like to turn the conference over to Christopher Welton, Vice President of Investor Relations. Please go ahead, sir.

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### **Christopher Welton - Technip - VP IR**

Thank you and good afternoon to our listeners in Europe and those of you who are joining us from the Americas. We are pleased to welcome you to Technip's first-quarter results for 2004 conference call. You have all had a chance to review our

earning's press release and the accompanying slide presentation, both of which are available on our website, Technip.com. Hosting today's call is Mr. Daniel Valot, Chairman and CEO of Technip. Mr. Valot will comment first on the group performance before opening up the call up to questions from the audience. Mr. Olivier Dubois, Technip's Chief Financial Officer is also participating in today's call.

Before we start I would like to remind our listeners that statements in today's press release and slide presentation as well as those made during this conference call that are not historical fact are forward-looking statements within the meaning of the private securities litigation reform act of 1995. Readers and listeners are strongly encouraged to refer to the disclaimers contained in today's press release, and at the end of the slide presentation. You may also want to refer to certain of our SEC filings including the company's 20F filing for 2002.

I will now turn the phone call over to Mr. Daniel Valot, Chairman and CEO of Technip.

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### **Daniel Valot - Technip - Chairman & CEO**

Good morning, or good afternoon to all of you. We have several good news during this first quarter and I will comment on this news following the presentation, we turn you over to our website. So, on our main numbers what can we say; revenues and earnings are in line with our goals for 2004. As you have seen revenues are up almost 14 percent, we said for the full year we are expecting a +9 percent.

Operating income is up about 13 percent. That is perfectly in line with the goal we had for the full year, 13 percent. And net income prior to goodwill amortization and exceptional license is up almost 38 percent which is also in line with our overall growth for the year which is 35 percent. What is also important is to see that we enjoyed the new improvement in our cash position so the net debt is again down and gearing towards below 9 percent. It was 25 percent one year ago.

We have also a better tax position. Our consolidated tax burden falls to 32 percent this quarter. It was in excess of 40 percent last year. And last but not least, we had the good success of our new bond offering for which we offered in excess of one billion euros. Eventually we raised \$650EUR million at the fixed rate of 4.625 percent for seven years, which gives us good additional flexibility. The only weak figure in the order intake side, the order intake stands at \$876EUR million compared to 1.5 billion in the first quarter 2003. This

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

slowdown is not a surprise. It comes after a very strong order intake last year and there were not so many contracts awarded to the industry during the first quarter.

However, three points have to be noted. First, offshore which generally carries better margins did very well with a 15 percent progress in order intake especially with new Spars in the Gulf of Mexico and big SURF project in Angola in Bloc 18. Overall the offshore share in the total backlog of the group is now again up. It is 43 percent, remind you it was about 30 percent one year ago.

Second, the news flow is positive. In the recent weeks that you've seen with one (indiscernible) 51 in Brazil and two (indiscernible) contracts in Australia. And third a very large project, I expect it to be awarded in the next twelve months, like ADCO (ph) Actoni (ph) a major SURF contract in Brazil. The GTL unit in Nigeria (indiscernible) in Abu Dhabi (inaudible).

So you've got on the page 5 and 6 different numbers for the segments of activity of this company. For offshore, as you can see a big surge in backlog compared to what it was one year ago. Revenues were up 18 percent, and EBITDA income is up 11 percent. We had a rather good first quarter in SURF with margins getting back to something pretty close to normal at 8.1 percent. For platforms we have a very low EBITDA which is not surprising, it is the direct impact of the change we made since the beginning of this year, which was announced to the financial community some months ago. We decided to apply to the segment of (inaudible) not in recognition we have in the rest of our business.

Onshore downstream did pretty well with revenues up 20 percent and EBITDA being up 31 percent. So with a margin level of 4 percent. Industry suffered from two things, first the fact that we divested several, we are in process of divesting several affiliates which were not exactly core (ph) and which were a big component in the industries branch and second, this branch which was losing money last year is now getting back to a more balanced situation. We expect the situation to improve in the next quarters.

But since we (indiscernible) Income statement I won't comment on it except if you got any specific request. (indiscernible) Technip was pretty good this quarter. As you can see (inaudible) cash flow of 69 (ph) a bit better than during first-quarter 2003. Working capital worked in our favor providing additional resources of 21 (ph) in addition to that we have capital increase in line with (indiscernible) program

which brought 24EUR million to us. In front of that CAPEX were 14, slightly less than the first quarter of 2003. So we've been able to repay debt up to 114EUR million during this first-quarter which is a very good achievement.

As a result (inaudible) as you can see on page 9 our financial debt is again down, rather sharply. The reduction in net debt is 66 percent (inaudible) group and as a result the gearing ratio at the end of March is slightly less than 9 percent, it was 25 percent (inaudible) it was 47 percent two years ago so you can see the progress we've made in terms of cash flow generation and debt reduction.

The next slide is about business development, so it just shows the way things have been moving in this company during the past twelve months. As you can see the most important feature of this backlog is that it is still up compared to last year in spite of the fact that we had negative adjustments from the change in the (indiscernible) value compared to the euro. And also we had the impact of the planned divestitures I will explain, but nevertheless we are now with a backlog in which the offshore fraction, this 43 percent -- it was only 26 percent, so I think we are heading in the right direction.

The next slide shows (indiscernible) revenues and backlog by region. The most important feature I believe for (indiscernible) Technip which was traditionally heavily involved in the Middle East, is that today we released (inaudible) a little bit less than 40 percent of our business and Africa has emerged as another very important region for us with the same (indiscernible) Africa for us being essentially offshore jobs. And with the Middle East, essentially onshore jobs.

Then we move to a few financial topics. We compared our position in terms of equity and (indiscernible) compared to our most important competitors. I think it is important in terms of financial soundness to show that Technip's equity as being the largest in the industry and not very far away from the number one Halliburton. In terms of gearing we show the gearing at the end of 2003, you can see that we have one of the lowest gearings in the industry and it is as I said previously a bit lower today, less than 9 percent.

We were very happy to have been able to manage successfully new Euro bond issue which had been placed I would say with a great success to non U.S. investors. So the money is in the bank now, \$650EUR million at fixed rate which is I believe very low and maturing in seven years from now.

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

We did also some re-engineering on our credit lines, we have two credit lines prior to April 2004 which (inaudible) the spread which are (indiscernible) on the slide number 17 and financial (indiscernible) which were expiring in 2006 (indiscernible) replaced by one single credit line, \$850EUR million with a spread of 57.5 basis points. No financial covenants which gives us more flexibility and maturing in five years from now.

We managed our securities during this quarter again (inaudible) since the beginning of the year in order to limit potential dilution for shareholders and to enhance our (inaudible) basis, so since the beginning of the year we repurchased net 161,000 shares. We issued also in connection with the employees recognition program 331,000 shares, and we intend to continue to repurchase shares in order to limit the potential dilution for shareholders.

On the convertibles side, we repurchased a lot of our convertibles at the end of the first quarter in excess of 100,000 convertible bonds, and reducing the value of the outstanding convertibles to 644EUR million, which you can see is a level which is pretty close to the amount of cash we raised through the bond (indiscernible). (indiscernible) market conditions, first oil and gas prices are extremely good for our customers, which is also indirectly good for us. We are happy when our clients are (inaudible) cash flow and have a great appetite to adopt a new business and therefore to invest in new facilities.

(indiscernible) which is not going exactly in the right direction for us is the big surge in the price of raw materials, especially steel which took place in the last six months mainly under the influence of the rapid growth in the Chinese demand. It is a challenge which we are addressing there through our global (indiscernible) system and of the news which goes rather in the right direction for us is the fact that since the beginning of this year the euro has been weakened against the dollar and most other currency and that of course the good news for Europe and contractors like us.

Finally, our targets for 2004, they (indiscernible) changed. We still keep the same targets; the main one being that we would like to get our net income pre-goodwill and pre-exceptionals to be 35 percent higher this year than it was last year. And we are fully committed on this target. It will of course as always not so easy since new difficulties are always emerging. We were last year facing several challenges, weak U.S. dollar plus instability in the Middle East plus fierce competition from the competitors. This year we face rising raw metal costs even

if it seems that it is now plateauing, plus again instability in the Middle East plus again the fierce competition.

The overall picture of how (indiscernible) in the context of high oil and gas prices and growing demand for oil and gas around the world, new projects are emerging for offshore developments, gas treatment, LNG, GTL, petrochemicals for which we believe the new Technip is very-well positioned to grab its fair share of the market and thus continue to grow its business and its earnings. So that's the extent of my presentation and now we are ready with my colleagues to answer your questions. Thank you.

## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) Michael Carter from ING.

### Michael Carter - ING - Analyst

Michael Carter as stated from ING. I have -- good afternoon -- I have a couple of questions for you. The first one is I noticed that the bond premium was very low in the financials this quarter. Is that something that will continue in further quarters? And the second half of that question is why did you use a higher amount when you calculated your adjusted EPS figures?

### Daniel Valot - Technip - Chairman & CEO

You are talking about the provision for the redemption premium on the convertible bonds?

### Michael Carter - ING - Analyst

Exactly, which was about 4 million last year.

### Daniel Valot - Technip - Chairman & CEO

Exactly, that will reduce this quarter because we purchased a number of convertibles so the main impact was to reduce of course the outstanding convertible which on the market and accordingly the premium we would have to pay in case of redemption. And as a result the provision was reduced. Next quarter we should be back to the normal level of this provision. It is a one time item.

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

### Michael Carter - ING - Analyst

How come when you calculated your adjusted EPS used you subtracted 1.6 million rather than the 0.6 we see in the P&L?

### Daniel Valot - Technip - Chairman & CEO

Because what you have to add when you compute the EPS on a fully diluted basis you are taking into account the actual shares plus the convertible bonds assuming they will be converted. Therefore it is appropriate to add back to our net income, not only the provision for the redemption premium but also the financial costs themselves on the convertible bonds, so to speak the one percent interest rates. So we add back those charges after-tax to other net income. That is normal we are computing the EPS when we got convertible bonds outstanding.

### Michael Carter - ING - Analyst

Thank you very much for illuminating it for me. I've got one more financial question for you. On the debt side do you expect your gearing to remain near its current levels, or do you expect to trend back upwards towards your, let's say your target of being somewhere under 20 percent?

### Daniel Valot - Technip - Chairman & CEO

Well, our gearing is following a kind of seasonal pattern, especially in relation with the payment of the dividend. So we pay the dividends in May, so we do expect that our net debt and therefore our gearing will be up at the end of this quarter. What will it be at the end of the year is always difficult to predict especially because the working capital changes can be I mean are really difficult to anticipate. Nevertheless, we have set our goals of having a gearing ratio billed (indiscernible) by year end and based on our current projections we feel comfortable with this target. We should be below 20 percent (indiscernible).

### Michael Carter - ING - Analyst

Thank you. Going over on to the operating side of the business, looking at your breakout of your backlog as you do it by year of execution, if I'm not mistaken in all three business lines you have roughly, let's say, one quarter's worth of revenue still to find for 2004. The first question is do any of the recent orders outweigh and P51 go towards filling that

gap and otherwise what are the things that are going to help you meet your revenue targets for this year?

### Daniel Valot - Technip - Chairman & CEO

I would say the gap between backlog, which is scheduled to flow, to be converted in revenues this year and revenues we are expecting for the full year is of the same size as during the previous years. So there is nothing in this period of backlog scheduling which may made us believe that we could be a bit short in revenues this year. So we feel still comfortable with the first 9 percent revenues guidance we gave at the beginning of the year. The gap will be, as usual, filled by new contracts being awarded to us during several quarter, third quarter, even fourth quarter which we start generating revenues.

### Michael Carter - ING - Analyst

And if I can permit myself one last question. In the offshore facilities business the margins, you said are low right now because of your new margin recognition policy for that division. Can you give us an idea of when you expect margins to start accelerating in that division, and if you can just highlight exactly the revenue recognition? You often say that you have a very conservative form of recognizing margin. It is based on that percentage of completion, but it is not as let's say linear as some of your competitors.

### Daniel Valot - Technip - Chairman & CEO

You are right. I am pleased to answer this question. The recognition method we have is the following one. As long as we've not reached 25 percent progress on a project, we don't recognize any margin. Once we've exceeded 25 percent, we use what we call the square method, we take the square number of the progress so when we are 50 percent completion, we take 50 times 50, makes 25 percent of the expected margin at termination. So it's an extremely cautious and progressive method. The fact of the matter for this facilities business is that we took last year a number of (indiscernible) projects mainly during the second and third quarters.

So these projects of course started generating revenues and they will generate a lot of revenues during 2004, they won't generate much margin given this metric. You can assume (inaudible) rule of thumb that for this type of very large

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

project which are instituted over three to four years, during the first year it is very likely that we will exceed 25 percent completion. So during the year 2004 we have already disclosed that to the market. You can expect revenues in this activity very, very low margin recognized in 2004. Margins will start to pick up in 2005.

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### Michael Carter - ING - Analyst

If I can just make one last question on your margin recognition; I mean my understanding of the engineering contracting business in any project yields have contingencies and therefore people who recognize on a linear basis. However if the project doesn't go wrong (indiscernible) sort of to recover the contingencies at the end. But based on their knowledge certainty that they have costed the project correctly they feel comfortable with recognizing margin in a linear way. Is it sort of past experience of yours of perhaps having had unhappy surprises that leads you to be conservative, or what?

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### Daniel Valot - Technip - Chairman & CEO

No, the fact of the matter is that all our projects even if we have this progressive method of (inaudible) we do also put contingencies. But based on our more than 50 years of experience as an engineering construction company we know this business is highly risky, and so not only do we put the appropriate contingencies in our explanations but also we stick to this policy under which as long as we have not been making 25 percent progress on the project which is as long as the engineering estimate did not become almost completed and approximate secured for most part of the (indiscernible) we don't allow ourselves to recognize in the margin. So I am not saying it is a better method than the one following by some of our competitors, but we like it.

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### Michael Carter - ING - Analyst

Thank you very much for your patience.

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### Operator

Ruairidh Stewart from Simmons & Co.

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### Ruairidh Stewart - Simmons - Analyst

I don't know whether to ask a question about ING or Technip on this call, but you had a slight the year end '04 that showed that SURF market trending down slightly this year, and you alluded to (indiscernible) orders after (indiscernible) that you had posted last year. I'm wondering if that's still the case and given the strong Q1 orders in the SURF business.

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### Daniel Valot - Technip - Chairman & CEO

Well, I don't know what to what you are relating when you -- what we said last time was that for 2004 we saw in ways that reach a very large market with other opportunities in 2004, but nevertheless a lower number of contractor awards than last year but still a very important market. We were seeing a recovery in Brazil and Gulf of Mexico and a (indiscernible) level of activity in the North Sea with a high level of seasonality. What is probably a pleasant surprise is that during this first quarter, North Sea was a little bit more active than one would have thought six months ago. The rate of utilization of our diving support vessels in the North Sea was better than during first-quarter 2003, although low compared to the full year rate of utilization. So that's the pleasant surprise we had during this quarter. It's true that SURF did a bit better than we could have expected because the seasonal slowdown in the North Sea was less lower than we would have thought.

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### Ruairidh Stewart - Simmons - Analyst

Just on I think the dollar challenge for '04 as well as maintaining backlog was in executing the projects you won last year, I just wanted to give you mentioned SURF margins ticking up after completing some (indiscernible) contracts last year I was just wondering if there is any contracts out there that are giving you more concern than others.

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### Daniel Valot - Technip - Chairman & CEO

(inaudible) we are very challenging contracts we had last year which were basically two terrible contracts in SURF, one that onshore downstream and a few medium-size contracts industries (indiscernible) two days behind us. And even if we have (indiscernible) our backlog we have not renewed the backlog of challenging contracts. So we are happy today. There is no contracts being kind of nightmarish as there once were last year.

# FINAL TRANSCRIPT

TKP - Q1 2004 Technip Earnings Conference Call

**Ruaridh Stewart** - Simmons - Analyst

That's it. Thanks.

**Operator**

Charles Lesser from UBS.

**Charles Lesser** - UBS Warburg - Analyst

Two questions, please, the first really about capital allocation. It seems that even with the dividend payment in the second quarter you probably have comfortably 200EUR million of headroom against this gearing target for this year. I understand you may want to make small acquisitions to bolster the industry segment but really wanted to get a sense of how you would use that cash; whether you would be willing to continue paying down debt to reducing the gearing level. Whether you look to commit all of that free cash flow really to buyback, and then just wondering if you could explain why you prefer buying back the convertibles over the ordinary (inaudible).

**Daniel Valot** - Technip - Chairman & CEO

As a matter of general policy, I think our number one priority is to continue to reduce our debt. If we could in the coming years get back into a situation in which we would be cash positive it would be even better. So we are not scared by the fact that we will run into an excess of cash. It is not our main concern today. On the other hand, as I said before, if we find good opportunities to make very targeted acquisitions in order to strengthen our industries branch we will do it. But probably you won't probably even notice it and it won't be big numbers and your last question was -- why did we make more convertible buybacks than shared buyback?

Well, because we are not great fans of shared buyback. I don't think it's an appropriate method of enhancing shareholder's value. So we do buybacks on our securities, on our stock mainly to try to implement the kind of zero dilution policy, but we are in the process of reducing our equity in this manner. Why did we repurchase our convertible bonds? Because we -- our main target is to reduce our debt and main compliment of our debt is the convertible bonds, and that's it.

**Charles Lesser** - UBS Warburg - Analyst

Can I follow a fashion and ask another question? Just wondering if you could disclose what the (indiscernible) life of project completion rate was in the facilities activities in Q1.

**Daniel Valot** - Technip - Chairman & CEO

We do average of completion on facilities during Q1. You can give us a couple of days to get back to you with that on this question. We do not have that on the top of our heads. We are with projects which are most of them have been signed during April and June last year. So we are starting with those projects. This last project which will be completed over three year period of time -- I would assume the average rate of completion is (inaudible).

**Charles Lesser** - UBS Warburg - Analyst

Thank you very much.

**Daniel Valot** - Technip - Chairman & CEO

If you're really interested I am sure Chris Welton will be so happy to go and find this number for you.

**Operator**

Jean-Luc (indiscernible) from CIBC Securities.

**Unidentified Speaker**

I will ask two questions. (indiscernible) your potential contract for (indiscernible) after you commence with FCRC (ph) Commissioner, I think there might be delays in approvals. Second question is on your cash flow statement. I don't see where are the proceeds from private subsidiaries are. Are there any in your first-quarter cash flow statement or?

**Daniel Valot** - Technip - Chairman & CEO

No, they are not. On these three subsidiaries which we decided to divest two were sold during the (indiscernible) quarters, that we show in our cash flow statement for the second quarter. The third one we are pretty close to an agreement. We expect this agreement could be signed before the end of June. It is not 100 percent certain. So it will if it

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

were (indiscernible) it would be either during second or third quarter.

### Unidentified Speaker

(inaudible)

### Daniel Valot - Technip - Chairman & CEO

Sorry?

### Unidentified Speaker

Have you ever taken both subsidiaries offshore.

### Daniel Valot - Technip - Chairman & CEO

Exactly. That is the reason why on the backlog we mentioned the fact that since we stopped consolidating those subsidiaries as of the first of January this year that reduces our backlog by EUR160 (ph) million. We also mentioned that those three subsidiaries would have generated during first quarter EUR41 million revenues, EUR1 billion EBITDA which are no longer on our P&L for 2004, for the first quarter.

Now on your question on Freeport, it is a bit confusing because from the contracts we got with the clients, we believe that this (indiscernible) could get the final clearance from all authorities including for during the month of June. Now (inaudible) as you did these declarations by (indiscernible) we don't understand them. I am not sure the clients understand this (indiscernible) either. For us the latest news, but as you know we are not the best place to answer this question, but our client knows better than we do by definition we are just the contractor. But from the discussions with our client we believe this (indiscernible) approval could be obtained in June.

### Operator

The next question comes from Mr. Duncan Goodwin from Merrill Lynch.

### Duncan Goodwin - Merrill Lynch - Analyst

You mentioned obviously the environment from the macro perspective. You are pretty positive for stimulating some

future capital spending. We've obviously heard recent weeks some comments from OPEC which regards particularly to expanding their capacity. You also got that 30 percent gearing on the downstream, on the onshore side. I just wondered if you had any kind of information on the coal (ph) phase of whether some of the countries are looking to be more aggressive with building in capacity? And whether you are in a good position to win some share of new business coming out from that area.

### Daniel Valot - Technip - Chairman & CEO

Well, for us the main story, particularly the Middle East and (multiple speakers) countries, the main story for us is gas much more than oil, and we are in entering an era in which we are going to see (indiscernible) gas projects. I used to talk about Elephants expand, we've got the project which is in excess of EUR500 million. Now we are going to see super Elephant projects which are well in excess of \$1 billion or euros. And that is the case for instance for this new GTL plant in Nigeria, the price would be well in excess of \$1 billion. It is the case for this OGD3 (ph) project I mentioned (indiscernible) the onshore gas development so it is onshore gas developments, the third phase.

The second phase we managed a few years ago was \$1.2 billion dollars, the third phase will be even larger and we are currently bidding on this one. We are going to see new LNG projects in Qatar, what the so-called Qatar gas (indiscernible) for which the operator will be Exxon Mobil in which the ambition is to build very large liquefaction train, 7.8 million tons per train, at the cost which will be probably not very far away from one billion dollar per unit. We also see Shell planning to create a very large GTL plants in the Middle East in Qatar again for which they said they have secured a budget of \$3 billion.

So the big, big story for us is in (indiscernible) is gas especially in the Middle East. And under various forms and can be a treatment facilities; it can be LNG facilities but very large LNG facilities or the new gain which is the GTL. But we always are looking very carefully at some LNG projects in the Far East in Indonesia and Australia. And as I said before, we are also very much interested in LNG receiving terminal in the U.S. So for us as a contractor today the big gain in especially in Middle East is gas.

# FINAL TRANSCRIPT

TKP - Q1 2004 Technip Earnings Conference Call

## Operator

(indiscernible) from Chemical News (ph).

## Unidentified Speaker

I would just try to ask you a bit more about the prospects on the orders of petrochemical plants. Can you say something like -- what is your prediction for this year overall, and is it going to be higher, even more orders for chemical plants, for example?

## Daniel Valot - Technip - Chairman & CEO

Sir, I never make predictions; it is very difficult to predict especially when you talk about the future but at least we got some good indications that there is a strong revival in petrochemicals coming this year, especially for the major plants which are the (indiscernible). Six months ago we had the feeling that it would be full year in terms of new (indiscernible) plants. Today we are faced with something like 14 different prospects around the world, which will be awarded probably in 2005. Mostly in the Middle East and in China; in the Middle East to take advantage of cheap gas being available in China to satisfy the growing demand in China. So it seems that it will be a great year for petrochemicals in the world, will it be a great year for petrochemicals for us is a different story. It depends on our capability to get those contracts. But I can tell you that we are making everything possible to get our fair share of these projects.

## Operator

Dominique Petrie (ph) from (indiscernible).

## Dominique Petrie -- Analyst

I have a question regarding the tax rates, given the (indiscernible) that you are still guiding us toward the level of 37 (ph) percent, given the achievements of the first quarter, is it this cautious data or do you expect to be careful for the tax rate in the coming quarters?

## Daniel Valot - Technip - Chairman & CEO

I think it would be inappropriate to take a quarterly number like this one and to extrapolate it, so we made 32 percent this

quarter. I don't think it is very significant for the rest of the year. We gave you guidance, we wanted to achieve 37 percent all over this year. We keep it this way, we don't, it would be really premature to say that we would be able to achieve the certain level of 32 percent for the remainder of the year. The most likely scenario is that we will achieve something like 37 percent for the full year.

## Dominique Petrie -- Analyst

I have another question regarding the margin in onshore division and please compare the actual month of the first quarter compared to the average of 2003, we are still at basically the same level of 4 percent EBITDA margin. Given the fact that more and more contracts are moving towards near completion in the onshore branch do you expect (indiscernible) margin in the coming quarter or is it more likely that it is going to take place in 2005?

## Daniel Valot - Technip - Chairman & CEO

I would be very careful on this question because once again there are a number of factors which are not going exactly in the right direction, especially the turmoil which has taken place since (indiscernible) raw material cost. So I think it would be really (indiscernible) it would be really premature to bet on the very nice increase in margins during the full year 2004. Of course we are doing everything we can to achieve a better level than last year. That would be logical given the fact that the major contracts which were started in 2002 are now entering into their second year of execution. But don't bet on the explosion of our margins during the year.

## Dominique Petrie -- Analyst

I know that it is early to speak about 2005 level but could you maybe give some indication (inaudible)?

## Daniel Valot - Technip - Chairman & CEO

You know, it is extremely difficult because for one very simple reason. If we were intelligent we would stop taking any new order from now and then we would have a very simple model on which the contracts and their execution would generate better margin as we go -- they would generate better margins in the third year than in the second year. Unfortunately we are not smart and we continue taking new contracts. So if the onshore downstream branch by any misfortune grabs one

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

or two of the super Elephants which are heading in front of us towards the second part of this year, that would start generating a lot of revenues with no margin since it will be again new contracts entering into the first year of (indiscernible).

So it is extremely difficult to predict because the mix between old contracts and new contracts is of course extremely difficult to predict today. But some of the contracts we are shooting for might be awarded during the third quarter; if they are awarded during the third quarter those very last contracts, they would start generating revenues with no margin at all. And the average margin rate you look again at this and be disappointed. But.

### Dominique Petrie -- Analyst

Okay, the point is taken. I have a final question if I may, this week the comments you have just made regarding the competitive environment stating that it was still a fierce environment. Recently you were mentioning I think since 2003 you were mentioning some kind of improvement in the competitive environment due to a very (inaudible) of your competitors. Do you find that this competitive environment has deteriorated once again in 2004?

### Daniel Valot - Technip - Chairman & CEO

No, I would say that the competitive environment is not as nice as it could have been for us this year because the dollar is still around one euro for \$120. So we suffered from this euro going back (indiscernible) during the last two years. So that of course does not go in the right direction for us, even if the euro is getting a bit weaker these past weeks. That's one point. The other point is that in this funny industry where you have a few competitors we can be a little bit more responsible in terms of pricing. (inaudible) there are a couple of others which started making mistakes or strange behavior in terms of pricing. So for instance, not so long ago on our onshore business it was mainly the Korean competitors who were really dumping the market. During the past months or year we see some of the Japanese competitors again underpricing. It changes, unfortunately, not everybody is wise at the same time; there is always at least one competitor being (indiscernible).

### Operator

Nick Pakup (ph) from Lehman Brothers.

### Nick Pakup - Lehman Brothers - Analyst

A couple of questions. Firstly, I haven't got the presentation in front of me, so could you possibly spec the offshore backlog down into SURF facilities as a housekeeping exercise? Secondly, some things are slightly confusing there. You said to Ruairidh earlier that you have no offshore contracts, you're going nightmarish and you said to Charles we have a low percentage completion. As far as I am aware they don't get nightmarish until you get into the offshore installation phase. And can you just tell me when that is likely to be with particularly reference especially to the Egypt contract. And thirdly just looking through the numbers in the first quarter I know Stolt Offshore settled the patent dispute with you; I think you received \$9 million of cash into that. Can you just tell me where that is in the numbers?

### Daniel Valot - Technip - Chairman & CEO

Sorry. Could you repeat that?

### Nick Pakup - Lehman Brothers - Analyst

In the third quarter, Stolt Offshore settled the patent dispute, for the use of Jay Lay (ph) in the North Sea. Can you just tell me exactly where that money you received is in your numbers?

### Daniel Valot - Technip - Chairman & CEO

Okay. I'll try to address those three questions. First on the backlog, it was EUR1 billion 826. Platforms 949. So SURF is up 52 percent compared to the end of March 2003. Platforms is up 132 percent, which gives for the total offshore 2775EUR million. That makes 43 percent of our total backlog. And on Simian Sapphire we heard the question on Simian Sapphire relating to where are we on this project, engineering is finished and we're going to start the marine operations during the third quarter. So the vessels are on their way to Egypt, and we will start the installation during the third quarter of this year, it is progressing as expected.

Your third question was about the settlement of the dispute with Stolt Offshore. I do not think we've disclosed anything on this settlement.

# FINAL TRANSCRIPT

TKP - Q1 2004 Technip Earnings Conference Call

**Nick Pakup** - Lehman Brothers - Analyst

(inaudible) Stolt Offshore's 6-K documents the settlement details.

**Daniel Valot** - Technip - Chairman & CEO

If Stolt Offshore said something on that side, you will have to rely on what they said.

**Nick Pakup** - Lehman Brothers - Analyst

Okay, but it is usually a legal document and they have paid the cash. I was just wondering where it is in your numbers.

**Daniel Valot** - Technip - Chairman & CEO

Is it what?

**Nick Pakup** - Lehman Brothers - Analyst

(indiscernible) their 6-K, they said they have paid the cash. I was just wondering where it was in your numbers?

**Daniel Valot** - Technip - Chairman & CEO

Oh, they said the cash, we got the cash, yes.

**Nick Pakup** - Lehman Brothers - Analyst

Okay, and where is it in your numbers?

**Daniel Valot** - Technip - Chairman & CEO

Where is it in our numbers? Roughly speaking I don't know. It came as a reduction in SG&A.

**Nick Pakup** - Lehman Brothers - Analyst

Okay. Thank you.

**Operator**

(inaudible)

**Unidentified Speaker**

I would like just to come back on the first question on the gap between the target in the (indiscernible) details and the current of the backlog. Just quickly what do you need the 1.3 billion of contracts, new contracts to be (indiscernible) during the year to achieve roughly your guidance? The same number estimated for last year was only 640 million. So there is a very big difference between the situation last year and this year. And already last year your (indiscernible) contracts I would like to know you said you are very comfortable to reach your target. Where the improvement should come on new orders to be won and executed during the year, could you be more specific?

**Daniel Valot** - Technip - Chairman & CEO

I was not aware of that, I had the feeling that the gap was the usual one so we, I need to go back to the number and check whether it is bigger than it was last year same time. Nevertheless, it is likely first that we are a bit conservative on the speed at which this backlog will transform into revenues for the first year 2004. Second, as you've seen the order intake in the offshore branch has been growing very nicely since the beginning of this year. Plus 15 percent during the first quarter, again a few major contracts since (indiscernible) with (indiscernible) and the (indiscernible) 51. There are more projects coming which will be awarded to us in the near future.

Onshore, we are not allowed to talk about it, but there are some pieces of business for which we get letter of intents from the clients and so it is contracts we have in our hands, even if the contract is not formally signed. So once again I said a few months ago that what we were expecting for this year was an order intake probably lower than last year which was extremely high. But still a good level of order intake, which would allow us to have at the end of this year a backlog probably in excess of what it was last year. From what we can see we will have four reasons to be considered, that we will achieve another intake in excess of our revenues for the year and therefore an increasing backlog.

The question is probably on the speed at which some of the very big projects would be awarded. When it's one billion or \$1.5 billion project for a client it takes a little bit more planning for them to scratch their heads before making the decision and making the final contract. So there might be some uncertainty in that, but today we have all reasons to believe

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

that we will make our budget in terms of revenues, which is last year plus 9 percent.

### Unidentified Speaker

Okay, another question on there is a very significant decrease in provisions on the balance sheet decreased by EUR18 million. Just like to know is it linked to contract or is it linked to (multiple speakers) provisions?

### Daniel Valot - Technip - Chairman & CEO

No, it is linked to the divestitures we made. In the divestitures we made are (indiscernible) there is in particular a company (indiscernible) located in Germany for which we had a bunch of provisions linked to retirement that made about EUR20 million. So that is taken out of our consolidated provisions to date.

### Unidentified Speaker

So if I am in fact excluding this effect of provisions purely linked to contractor (multiple speakers) or even increase?

### Daniel Valot - Technip - Chairman & CEO

Yes. About the same number, even a bit increased compared to last year. What has been reduced is provision for social engagements and for retirements because of the (indiscernible) divestiture. Provisions are related to contracts are a bit up compared to what they were at the end of last year.

### Unidentified Speaker

One last question is there any news on the (indiscernible) contract?

### Daniel Valot - Technip - Chairman & CEO

There is no big news. The news is that ADCO (ph) is reviewing the situation very, very closely, together with the engineers of (indiscernible) and it is expected that we take their final decision in the next weeks, probably in June. But that's all I know. And of course, it will be a very important news for our industry branch if this contract is confirmed.

### Unidentified Speaker

Last question on the industries after the disposals, what, first you said you expected this situation to improve. Does that mean you think for the rest of the year it will be clearly above breakeven? And second, what is -- what will be the size of this division after the disposal? Can we have an idea because there was a big drop in revenues and is the 58 or EUR60 million sales new activity, reflect the new size of the entity, the division?

### Daniel Valot - Technip - Chairman & CEO

Among the three sub-affiliates which are in the process of being divested one is being divested already during second quarter, it is a company based in Germany with year-over-year revenues of about EUR120 or EUR130 million. And this was reported under the industries branch. So of course that changes completely the size of the branch. What will this size be for the remainder of the year? That's depends mainly on the ability we have to take new contracts, so of course in terms of size the most (indiscernible) would be the (indiscernible) contract which could represent for our share EUR300 million. But there are also some other projects which we might get before year end especially power plants in Italy.

As you have seen we've got one at the beginning of this year. We are in very advanced negotiations for two others. There might be a third company and in addition to that of course there is the regular flow of smaller projects for chemicals and lifestyles. Each one of the power plants in Italy (ph) I'm referring to are worth about EUR100 million. But it is a very little number of projects. So based on our rate of success we can add at the end of this year a rather large backlog for this division or a very low backlog for this division since the uncertainty is based on a handful of contracts, which will be awarded to us or to somebody else or not pursued if we are (indiscernible) a contract in South Africa.

### Operator

Nick Griffin (ph)from Deutsche Bank.

### Nick Griffin - Deutsche Bank - Analyst

Nick Griffin here from Deutsche Bank. I promise I will ask only one question; just a quick question in regards to GTL. You mentioned there is another couple of elephant projects

# FINAL TRANSCRIPT

## TKP - Q1 2004 Technip Earnings Conference Call

coming up one mainly in ascrabos (ph). You already have one GTL project on your book which is Orex (ph). Can I just ask how your GTL credentials apart from obviously the one project you have differ from that of your competitors? And who are your main competitors on these projects in Nigeria and again in (indiscernible) probably again next year?

### Daniel Valot - Technip - Chairman & CEO

Good thing for us for this Nigerian project is that it is a sister unit of the one we are currently been (indiscernible) in Qatar. It's exactly the same size, a capacity of 34,000 barrels a day. And it's exactly the same process. It is the (indiscernible) technology. So from a pure technical standpoint we obviously -- the best position to be able to take this project. Now we have in front of us a couple of competitors, which of course have been very upset when we took the Qatar project because it was the first large (indiscernible) to come to market, and so we created for ourselves in reference with this project in this new industry.

And as you can imagine, our competitors would very much prevent us to take not only the number one project but also the second one. So I cannot predict what the results of this competition will be. We believe we have a fair chances, but the decision is in the hands of the customer, of course. This is expected in the coming weeks; could be pretty soon.

Now the other projects which will come in the future are first the extension of the Orex project in Qatar, as you know the customer has already stated publicly that they want to expand the capacity from 34,000 barrels a day to 100,000 barrels a day. So there will be a competition I believe on this one. Then there is the Shell project which will be even larger because they are talking about 130 or 140,000 barrels a day in two trains. For which of course we will be in competition with the usual bunch of competitors, not so many competitors because we are not so many companies now in the world able to undertake projects of this size. So there would be probably less than the (indiscernible) competitors maybe two, three of them. And it will be (inaudible) tough competition.

### Nick Griffin - Deutsche Bank - Analyst

I suppose. Just as a follow-up who exactly are the competitors, the two or three who can do GTL alongside you?

### Daniel Valot - Technip - Chairman & CEO

Well, on the large (indiscernible) project the competitor is joint venture between KBR from the Halliburton group JGC, that stands for (inaudible) and that's it. On the Shell project we would expect to have the same people, and that's about it. So there are not so many competitors these days able to compete for these type of project which doesn't mean that the competition is easier.

### Nick Griffin - Deutsche Bank - Analyst

I understand. Thanks very much for your help.

### Operator

David Thomas from Commerzbank.

### David Thomas - Commerzbank - Analyst

If you haven't spent that much time talking about the offshore and SURF in terms of the outlook. It would be helpful to have some view from you about what projects there are coming up in the coming few months. But your bidding on based on the sort of platform and in the SURF business, so if you can give some color on that it would be helpful.

### Daniel Valot - Technip - Chairman & CEO

We did not explain too much on the SURF business because we did not have quite (technical difficulty) to give you (technical difficulty).

### Olivier Dubois - Technip - CFO

Good morning. The main project to come into port (ph) before the end of (inaudible) would be (indiscernible) in Nigeria as well. Will be some projects in Angola for Chevron and Total (ph), and will be in Brazil the (indiscernible) subsea shoreline and riser (ph) which is (indiscernible) at the moment. That is the main (indiscernible) project in the I would say the elephant of the (indiscernible) business. Of course there will be a number of projects being tendered underwater in the North Sea, the Gulf of Mexico and the current (indiscernible) of business but it will be of the small kind.

# FINAL TRANSCRIPT

TKP - Q1 2004 Technip Earnings Conference Call

**David Thomas** - Commerzbank - Analyst

Could you also comment perhaps on Tahiti, where you are doing the FEED design, when that may come up for the main contract itself.

**Olivier Dubois** - Technip - CFO

The FEED which we picked up through the first quarter of 2005, so in the order (inaudible) whether on the spar or the subsea (inaudible) and riser would be at the first half of 2005. There would be nothing in 2004, (inaudible) consider the fact we are doing the FEED which sets apart with the comparable position for this (inaudible).

**David Thomas** - Commerzbank - Analyst

Thanks very much.

**Operator**

Joe Mares from Morgan Stanley.

**Joe Mares** - Morgan Stanley - Analyst

If you could go through what the number for the platforms EBITDA would have been under the old recognition policy? I don't know if you mentioned that earlier in your discussion.

**Daniel Valot** - Technip - Chairman & CEO

No, Joe, we did not do this exercise. So I am really unable to answer the question. I'm sorry. We have last year on the facilities we made an EBITDA margin slightly in excess of 5 percent. I would assume if we had continued with this same (indiscernible) we would generate more or less the same five percent because (indiscernible) on a related basis but we didn't do the exercise of comparing during this first quarter what it would have been with the previous method.

**Operator**

(OPERATOR INSTRUCTIONS) Jean-Luc (indiscernible).

**Unidentified Speaker**

My question has been answered. It was on EBITDA and the potential of contracts. Thank you.

**Operator**

(indiscernible)

**Unidentified Speaker**

Just another question on the impact of the exchange rate on the order backlog. I don't know what exactly the process for revision but the exchange rate seems to be more favorable at the end of March compared to the end of December. So I know what the exact process to revise job backlog and in fact my final question would be with no stabilization of the exchange rate at 1.2 should we see no more revision of the order backlog due to the exchange rate?

**Daniel Valot** - Technip - Chairman & CEO

For this backlog adjustments what we take into account is the average exchange rate for the period, the same exchange rate we use for the revenues and for the backlog. The backlog is supposed to express what will be our revenues in the future. So we take the same (indiscernible) is the average exchange rate of the quarter. So in a sense, it was 113 last time. It is 124, 125 this time. This makes a 10 percent change, and in fact if you look at our backlog, which was in excess of 7 billion, you can see that it is a very moderate change. Because 10 percent applied on the whole of the backlog would make a difference of 700 million when the actual difference is as we compute it, is 180.

It was even bigger, of course last year; last year the adjustment was pretty close for the full year to 300. Yes, if the dollar is kind enough to stay at moderate level -- if it was even kind enough to go down to 1 euro if not 1 dollar we would be happier, but if there is no more change, if we stay around 120 there would be no more adjustment.

**Operator**

Gentlemen, there are no further questions at this time. Please continue.

# FINAL TRANSCRIPT

TKP - Q1 2004 Technip Earnings Conference Call

**Daniel Valot** - *Technip - Chairman & CEO*

Well, thank you very much for your interest. We know that you are eager once this first quarter is finished to know the numbers for the second quarter, so in order to please all of you we decided this year to release our second quarter numbers not in September but at the end of July. So we will see you again at the end of July. Thank you very much.

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## Operator

Thank you for participating in today's results conference call. A replay of this call will be available within the next two hours. The replay will be on our website, [www.Technip.com](http://www.Technip.com) and the Investor Relations section or by dialing 444 208 797 2499 for the UK, using the confirmation code 988214 followed by the hash key. Or by dialing for France +33 170 993295 using the confirmation code 132525 followed by the hash key, or by dialing for the U.S. plus 1-303-590-3000 using the confirmation code 579075 followed by the hash key. The replay will be available for seven days. Thank you and good bye. You may now disconnect.

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