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PRESENTATION

Operator

Good day everyone and welcome to the conference call for Technip's second quarter and first half 2003 results. This conference is being recorded. Later there will be a question and answer session. If anyone has difficulty here in the conference please press star zero on your touchtone phone for operator assistance. I would like to turn the call over to Mr. Christopher Welton, Vice President of Investor Relations.

Christopher Welton - *Technip - Vice President of Investor Relations*

Good afternoon, ladies and gentlemen. We are pleased to welcome you to Technip's second quarter and first half 2003 results conference call. Hosting today's call is Mr. Daniel Valot, Chairman and CEO. Mr. Valot will comment first on the group's performance before opening the call up to questions from the audience.

Before we start, I would like to remind our listeners that statements in today's press release 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 disclaimer contained in today's press release, and at the end of the conference call slide presentation which is available on our Web site.

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

Daniel Valot - *Technip - Chairman, CEO*

Thank you. Good day all of you and thanks for being with us. I would like to make a few comments.

First, I'd like to remind you that quarterly numbers in our industry are not extremely meaningful. As you know our basic task is to manage large projects which take usually two to four years to complete so quarterly earnings don't tell the full story. Indeed our second quarter shows solid earnings but I think it's more appropriate to focus our attention on the first half numbers.

Second point, most of you will remember that last year our first quarter numbers disappointed the market particularly as earnings came down, and we had not given in the market any early notice that the numbers would come a little bit short expectations. Since then, and for the sixth consecutive quarter, no surprise.

Our first half numbers are good and show progress of operating income of 10% compared to first half 2002. It's both in absolute numbers and in terms of margins since our revenues expressed in Euros were flat. As was mentioned in our press release, revenues first half 2003 would have been up 10 to 11%, at unchanged currency rates and consolidation scope.

At the same time, we continue to trim the financial structure that resulted from the Coflexip acquisition. If you take together depreciation amortization and financial charges, they took 7.6% of our revenues in first half 2002, they are now down to 6.3%, and though our revenues are flat compared to past year. And we expect this trend to continue as these are mostly fixed charges, while our revenues I expect to it grow at a pretty good pace in the coming years.

Fifth, I'd like to also to mention something which might puzzle you a little bit.

From our press release you have seen that our gearing ratio rose from 25 to 35%, during the first half of 2003, and the operating cash flow and CAPEX were similar to their first half levels. What went south was our working capital due to two reasons: First, onshore contracts which were booked last year and generated hefty down payments are now entering into their active spending phase, which is engineering and the start of procurement, thus reducing the cash balance generated by those down payments.

Second, we got very large new orders during this first half but mostly in the offshore area where down payments are much lower than for offshore contracts. To be more precise, looking at down payments made in connection with the seven major contracts booked during the second quarter 2003, those down payments were approximately 120 million Euros of which only 50 was received in our banks as of the end of the quarter.

If these contracts had all been onshore, down payments would have probably reached something like 180 to 200 million Euros. So the difference between what would have been no more down payments in the form of Technip and what we get during this first half is somewhere between 130 and 150 million Euros which explains to a very large extent the change in our working capital position.

In addition, there is usually a spike in gearing at the end of June following the payment of our dividend, and as a reminder, at the end of June 2002 our gearing was 44%.

Last point, on that when we sold our Paris building it was agreed that 90% of the price which was 100 million Euros would be paid at the end of 2003. Overall, when we make our forecast, we believe that our gearing should move below its current level by year-end and we are still targeting a gearing of around 20% by the end of next year.

When we look at this first half 2003, I believe the most striking feature is the big jump we had in new orders. With replacement ratio, replacement ratio meaning order in-take compared to revenues, rising to almost 200% for the whole group driven by the excellent achievements we had in our offshore contracting, in which the replacement ratio reached 250%.

As a result, the share of offshore contracts in our total backlog rose from 30% at the end of last year to 40% at the end of June 2003. As you know, offshore activities, particularly subsea jobs usually carry higher margins than onshore contracts.

Expressed in month of revenues our backlog is now equivalent to 21 month, which is an unprecedented level for us. Historically during the past 10 years we stood between 13 and 16 months, so 21 is a pretty good number because it gives us a good level of visibility of operations for the next couple of years. A good level of utilization of most of our fixed assets, and an incentive to keep a strong discipline in bidding for new jobs.

Talking about bidding and pricing discipline, there has been some gossip in the industry about the possibility that our recent successes in newer wells could be explained by our willingness to take contracts at distressed or discounted prices. This gossip was fueled by the results published by Petrogas of the last round of bidding in Brazil on two onshore facilities to be [inaudible], P51 and P52.

I can assure you that those rumors are unfounded. We kept the same policy of being extremely selective in our bidding, we have not relaxed our margin requirements, we have not relaxed our risk assessment methods nor our risk management.

In other words, we are not less reasonable than before. On the other hand, it is true that our most aggressive competitors are this year a bit more reasonable than before, they took so [inaudible] hits in recent years and that most of them appear to have adopted a more careful bidding and pricing approach.

Regarding the P51, P52 jobs, in fact, we took advantage of several factors which gave us key competitive edges. First, our experience in Brazil where Coflexip has been active for several decades.

Second, the partnership with the most competitive Brazilian yard. Third, the large and able engineering team in Brazil, the UTC company we purchased two years ago. And fourth, a specific technology for installation, the float-over developed by Technip which generates major savings for our client compared to heavy lifting.

Based on those factors, we offer the best possible price without reducing the expected margins below our usual standards and from what we know, we believe that we are still at this level for both the budget of the client. While I can understand that the success of the new Technip group is not welcomed by a number of our competitors, but this success is a fact.

In the SURF business, our market share for new project awards during the first half 2003 exceeded 50% of the market, compared to our usual 35 to 40%. We made tremendous progress in large integrated projects by being awarded both the SURF and FPS [inaudible] of Dalia.

We achieved a remarkable breakthrough in three highly strategic areas, West Africa, the Mediterranean Basin and the Caspian Sea and at the same time, the pace of our deadlock in onshore and downstream is still unabated and our backlog which was already very high in this segment is still growing.

Now, I'm not going to pretend that everything is fine at Technip. We also have our share of shortcomings and these have already taken their toll on our earnings in the first half 2003, in both offshore and onshore.

Offshore as we mentioned before, we are struggling with two contracts which are now very close to completion and should be almost completely behind us at the end of this year. Those two contracts were taken by the former Coflexip, at the time when probably most of the management time and attention were focused on the takeover bidding initiated by us.

Some technology coal and contract risk were not properly identified or estimated at the time of the bidding. And as a result, some material losses were identified, which have been covered by provisions booked during the past quarters.

We believe that these provisions should be adequate but as long as these contracts are running we are still at risk.

Onshore we've been hit on one contract in the downstream area and two smaller ones in the industry's branch. The story's a bit different, contract pricing was okay, but it's our customers which get into some kind of financial trouble during the execution of these contracts.

And to compensate when they are in this position, some customers, not all of them fortunately enough, some customers decide to play hardball with their contractors. Of course we are defending our rights but in the meantime we are being prudent and recognizing in our books losses on those contracts even though we believe we'll be able to recoup the charges down the road.

I should say that in a company like ours which manages several hundred contracts at the same time for a combined value which is in excess of 10 billion Euros, making losses from time to time on a handful of contracts is not unusual. What is unusual this year is the size of these losses which approaches 1% of our consolidated revenues for the year, and therefore, which are about two to three times more than usual.

In this situation, it's more difficult than in the normal year to predict the level of our earnings for the full year. What we can say is this: First, given the number and size of contracts which we have signed so far this year, some of which are in force and already generating revenues, it's likely that our full-year revenues may grow a bit faster than the previously forecasted 5%.

Second, in spite of the unusual risk we have to manage to the end of the year, we should be able to generate an income from operations which would be about 10% higher than last year. And this is in line with the previous guidance given to the market.

In terms of net earnings, our tax burden will probably grow much faster than our pre-tax earnings and, therefore, reaching the guidance level which was plus 15% may be a challenge. We, as you probably know, we don't employ tax consolidation [inaudible] so the losses we make in some countries don't give us any relief in others where we make profits.

Furthermore we decided not to activate for the time being any tax carry-forward credits in conjunction with the losses we are incurring in the U.S. And that's the way we look at our 2003 numbers.

For 2004, which is now coming pretty fast, it's a bit early to make projections as our projecting process has not yet started. We do it between September and December.

But given the size and the quality of our backlog, plus the fact that the loss-making contracts of 2003 should be behind us, I have every reason to believe that 2004 will be a great year for us.

I have another reason to be confident in our future, and I'd like to share it with you. You may have in mind the bumpy start we have had after the Coflexip acquisition.

A few Coflexip managers left the company including the top operating officer who decided to join one of our closest competitors. While I'm glad to say that those times are over, now with the teams of the former Technip, the former Coflexip and the former Aker Deepwater are fully integrated running the show with the same business philosophy and the same working tools.

At the corporate level I'm pleased to report that we've been able to assemble a team of excellent managers running the company in the same spirit. They are hands-on, highly motivated and much more interested by the success of the company than by the promotion of their own image or their own interests.

The more you will come to know these people, the more I believe you'll be impressed by their strength and by their cohesion. Three of them come from Technip and carry with them a lot of knowledge and experience.

Daniel Burlin is the head of our onshore downstream business and former CFO of Technip, John DeSevigne is deputy for business development, Andre Plesack, head of human resources and communication. They come from outside, Ivan Replumaz, head of our offshore business, comes from [inaudible] Offshore which was a great success story under his leadership and Ivan is an achiever.

Oliver Dubois, CFO of the group spent 10 years in the bank, 10 years in the contracting industry before joining us. He's giving us a great help.

We are, a united team. There's no room for internal politics. We work together in a very close manner to improve shareholders return for the long run and in a sustainable way. And I'm quite confident that this team will make the difference. Thank you for your patience and now we're ready to take your questions.

Christopher Welton - *Technip - Vice President of Investor Relations*

Operator, we're ready to start the question and answer period, if you please.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press the star followed by the 1 on your touchtone phone. If you wish to withdraw your question, please press the star followed by the 2. Your questions will be answered in the order that they are received. If you are using speaker equipment today please lift the handset before making your selections. One moment please for the first question. The first question comes from Mr. Charles Lesser from UBS Warburg in London. Please go ahead, sir.

Charles Lesser - *UBS Warburg*

Good afternoon. I just wanted to ask about your expectations for the pour yard in Finland and which contracts you see out there for the SPAR market. If you could dwell in particular on the scale of any restructuring charges that you think may be required to take and what the potential impact of the goodwill booked at the time of the acquisition that would be very useful.

Daniel Valot - *Technip - Chairman, CEO*

Okay. I will ask Ivan Replumaz to answer that. In fact, in Finland, this yarbus has been for quite a long time being very busy for long periods of time and from time to time getting into a slowdown. And there is a process in Finland which helps the companies to go through this situations. But Ivan will comment a little bit more on that. First on the SPAR prospects and second what we are doing with the yard in Finland.

Ivan Repulmaz - *Technip - CEO Offshore Business*

Okay. On this SPAR prospect, it's true that 2003 has been quiet so far. We have the information that there are some prospects which are revising in the Gulf of Mexico and we expect to try and negotiate one and possibly two contracts before the end of the year or the start of 2004.

Concerning the workload in Finland, we will stay away the [inaudible] SPAR in September, we sent away Mad Dog SPAR at the end of the year, and we will have a period of a few months where we have a very low workload which means that we will have to use facilities we can enjoy with [inaudible] in Finland to assistant in some of the contracts, keep a minimum workforce and wait for the next [inaudible]

Charles Lesser - *UBS Warburg*

What would be the potential financial impact of any restructuring charges and any goodwill write-downs?

Ivan Repulmaz - *Technip - CEO Offshore Business*

The financial impact of the restructuring charges is so far minimal because most of the expenses are going to be born by the Finnish operators, according to the low. What we have to bear is the fixed costs which will keep to a minimum as I've indicated the fixed costs will be less than 5 million U.S. dollar per semester.

Charles Lesser - *UBS Warburg*

Can you comment on the goodwill impact?

Daniel Valot - *Technip - Chairman, CEO*

No. In fact, the goodwill impact is no more I would say an act of goodwill since last year the goodwill has been affected partly for the floaters and facilities business and partly for the SURF business.

And the goodwill impairment list which is made at the end of the year is based on discontinued [inaudible] which takes into account the long-term outlooks for the market, not only for the SPAR market but for the floater, for the facilities and some engineering works which are unique to the floaters. That means that so far we have no concern at all about the impairment debt which will be carried out at the end of the year.

Unidentified

Just to be reminded, too, that we are reduced to very substantially the goodwill on the Aker acquisition itself. As you probably remember, we made an accelerated depreciation of around 140 million Euros at the beginning of last year, then we made a deal with Aker in which the price we paid has been reduced. We got first the agreement was a payment by Aker 45 million Euros, I believe, of which we got 31 already at the beginning of the year. And the remaining installment will be at the end of the September.

So that reduced the level of the goodwill on Aker. So I would be surprised if we had any kind of problem with this -- the amount of this goodwill, especially so as Oliver Dubois said, that now it's connected not to the SPAR business specifically but to the whole floater activity.

Charles Lesser - *UBS Warburg*

Thank you very much.

Operator

The next question comes from Mr.Thomas Martin from CSFB in London. Please go ahead, sir.

Thomas Martin - *Credit Suisse First Boston*

Hi there. I have two quick questions. One was on the tax situation. I mean, you've said that you expect the tax to accelerate at greater rate than revenues, I think we're probably already forecasting that, but it looks like it's up pretty significantly in this quarter. It's not likely to be a sustainable rate through the rest of the year. And I would be interested to hear what's changed regarding the business mix driving that. And as sort of a secondary question, following up on the P51, P52 issue, I was wondering, were you surprised at the high level of costs or high level of conservativism exhibited by the competitors that you're bidding against there?

Daniel Valot - *Technip - Chairman, CEO*

Well, on the second question, I think we are pretty comfortable with the price we offered. I believe we understand most of the gap between our -- the price we offered and the price offered by our closest competitor, at least we understand that there is, that they have a very different cost structure which explains most of the difference.

What we bid, the outcome, I don't know. After all since all of us are outside of the -- what we believe is the budget of Petrograph and they will decide they will just cancel this one and call for a new bid, or they can make whatever decision they want. It's obvious that the price offered by our closest competitor is in the sky. I mean, it's something like two times what we believe is the budget of the project. Do you want to add something?

Unidentified

Yes, there were six bidders for that job and three bids have been opened by Petrograph because [inaudible]. Of course we have no problem with that, but some [inaudible] of the pricing has [inaudible] full market and we don't know what was the level of the bid to the three not an open bid but it could have been much closer to our bid, we don't know.

Daniel Valot - *Technip - Chairman, CEO*

Sorry, your first question was about what? Oh, tax.

Thomas Martin - *Credit Suisse First Boston*

Tax rate.

Daniel Valot - *Technip - Chairman, CEO*

Well, you know, in our business, the tax rate is one of the things which is the most difficult to predict. We structure our business in what we believe is the smartest way tax-wise but from time to time since we are handling contracts on which the final outcome is not known until the contract is finished, we may have surprises.

Let me take an example. We have a major subsidiary in Italy, they are now doing extremely good profits. Unfortunately, it's a country in which the tax rate is close to 45%. We are making this year losses in the U.S. And those losses in the U.S. don't offset the taxes we have to pay in other countries. We don't have once again any tax consideration regime. Since we've taken this prudent attitude regarding tax credits, of course our tax burden is higher.

So difficult to predict nevertheless to the full year I've said the tax rate should not be very different from what we've seen during the first half. This doesn't mean that we are happy with this situation of course. In fact, I think that there will be a lot of things to do and there's a potential for improvement in this area.

The potential was difficult to develop as long as Coflexip still had minority shareholders. Now that the merger has been done last July, we'll be in a much better position to merge this or that affiliate in various countries in order to achieve a better tax [inaudible]. So it will be one of our many tasks in 2004, to try to reduce this tax rate to something much more like 33 to 35%, which is more or less the average of the tax rates in the various countries in which we operate.

Unidentified

Okay. Thank you very much.

Operator

Thank you. The next question customs from Mr. Peter Vestal from One Investments in Switzerland. Please go ahead, sir.

Peter Vestal - *One Investments*

Good afternoon. A couple questions, please. One is, if you could help us a little bit out on the order book to be completed in 2004, there's a big jump up from what you reported the last quarter as that figures now become something more or less equal to 2003. Has there been any change of definitions to what's included in that?

Daniel Valot - *Technip - Chairman, CEO*

Sorry, I'm not sure I understood the question.

Peter Vestal - *One Investments*

There's a table in the press release that's page 10 which shows the backlog scheduling and the offshore order book for completion 2004. It was a substantially lower number than 2003. That now these numbers are more or less equal. A lot of the orders which you have taken in the last quarter will be for completion in 2005, I believe. So I'm just wondering whether there's been any exchange in what you included in used to be large contracts only, for example, and whether this includes all work to give us a more clear picture of the total work of the company or what?

Daniel Valot - *Technip - Chairman, CEO*

Well, this is the total backlog of the company, so what is shown on this is at which speed this backlog will translate into actual revenues. So for the second semester of 2003 for the offshore, it will be a little bit more than 1 billion, 1.1 in 2004, and the remaining portion [inaudible] for 2005 and beyond. So that's our best estimate given the contracts which have been booked at the end of June 2003.

Peter Vestal - *One Investments*

Okay. Can you give us any feeling for what the same numbers would be for contracts being completed in different years?

Daniel Valot - *Technip - Chairman, CEO*

I'm not sure I understand.

Peter Vestal - *One Investments*

Okay. This is for work which is being done, for example, contract and book revenue in 2004, but only be completed in 2005, and given your accounting, profits taken on completion. So it would give also a helpful picture as to how things will progress if we had an idea of how the completions are phased.

Daniel Valot - *Technip - Chairman, CEO*

Okay. What we can say in this area now is that usually margin recognition comes at a slower pace than revenues. We are very careful company, we know we are working on the [inaudible] projects, [inaudible] projects in which the final margin is known only when we are at the end of the project. So usually the process is that first year you book a lot -- well, you book let's say on the big contract, 20 to 30% of the revenues, and almost no margin at all. And then you gradually book the margin as you go and you book most of the margin during the last year of execution of the contract when you have a much, much safer appreciation of the margin.

Peter Vestal - *One Investments*

Excuse me for interrupting you. I understood that point, bit I was trying to understand, because that is a very important point to the company's profitability and when it comes, I'm trying to, therefore, look be backlog and trying to understand how much of the backlog is going to be completed in 2004 and completed in 2005 to get a sense for exactly the point you were elaborating on.

Daniel Valot - *Technip - Chairman, CEO*

That's something you can get if you go to our Web site. We released the presentation in which there is a slide number 18, which gives you the schedule for the major contracts we have.

So all the contracts above 100 million Euros in revenues are listed on this schedule and you've got an idea of the timing which is expected for the completion of the contracts. So you will see and for each contract you've got the value in terms of revenues. You will see both for onshore and offshore contracts the date at which those contracts are expected to be completed.

Peter Vestal - *One Investments*

Right, okay. And then just a question, you were talking earlier about the profitability in the order book, and I just want to try to be clear if I understood the point you were making. Are you saying that essentially the movement in the dollar when you want to auto this business the people you're competing against or the competitive position has not made an impact on the profitability or the margin potential of that order book versus current work?

Daniel Valot - *Technip - Chairman, CEO*

I would say that in our business, the value of the dollar is of course important, and some other currencies too, especially the British pound. But not as important as you would believe in terms of competitiveness.

You need to realize that engineering is made by our teams more than 50% of engineering teams are located in the Euro zone but that's only a relatively small portion of the overall costs of the project. A lot of the costs are linked to the procurement of material and equipment, of construction, and this can be expressed in different currencies than the Euro.

Just to take an example in the very large number of projects, especially onshore, the value of procurement is something like 50% of the value of the contracts. And it's clear that when the dollar goes down, we tempt to shift a big portion of our procurement towards the U.S. or to other countries whose currencies are linked to the dollar. So we have much more flexibility than you would think in going through those periods of time when our currency, the Euro, goes up.

And what is probably more important than the currency fluctuations in terms of competitiveness is the level of aggressiveness of our competitors. There are some years when the contracting industry is hungry because there's not enough jobs for everybody, and some people are ready to cut their throat to get a job at whatever price. That's what happened to a large extent last year. And that's probably the reason why some of the competitors are bleeding now.

You've seen the numbers that companies like Gestalt, or McDermott or a few others, or Hyundai, and as a result, when the bleeding stops taking place, usually those people start being a little bit more careful in their bidding and pricing.

Also the size of the market is changing. Last year was a year in which big offshore jobs were not really coming on the market. I mean, most of the projects were delayed, delayed, delayed for various reasons. And in 2003, we have seen a much bigger number of projects being awarded on the market. So there is less hunger from the contracting industry first because some players are more reasonable and second because the size of the cake is increasing.

Peter Vestal - *One Investments*

Okay.

Daniel Valot - *Technip - Chairman, CEO*

I would like to come back on your question, your first question, I believe I understand now, because I didn't give the backlog scheduling at the -- when it was that, at the end of June 2002.

Peter Vestal - *One Investments*

Yes.

Daniel Valot - *Technip - Chairman, CEO*

So I believe I understand your point now. At this point in time, last -- so last year same time, out of the backlog which was pretty close to 2 billion Euros, most of it was [inaudible], transforming to revenues during 2002, 2003. What was left for 2004 and beyond was only 200.

So today, the picture is a bit different. What is supposed to come as revenues after the second year is much bigger. Which is in line with the fact that we have now backlog in which we have much more large contracts than before.

The backlog of the offshore branch last year was made up of a number of relatively smaller-sized contracts. This time we have a much bigger number of long projects which will be executed over three years, so the backlog of the offshore branch in terms of length, is getting pretty close to the one of the offshore -- onshore branch.

Peter Vestal - *One Investments*

Right. Okay. If I could ask one short last question. The losses in the U.S. this year, are they related to the troublesome contracts and therefore, be finished this year or is that related to something else?

Daniel Valot - *Technip - Chairman, CEO*

Well, they're related to the trouble on some of the contracts I mentioned. They're also related to one of the affiliates of the former [inaudible] deporter, which was involved in ancillary business and was not part of the core business. This affiliate used to lose a lot of money and we disposed of it during the first half of this year. So that's a big hole which is now behind us. And I would say that that's about it.

Peter Vestal - *One Investments*

Thank you very much.

Daniel Valot - *Technip - Chairman, CEO*

Thank you.

Operator

Thank you. The next question comes from Mrs. Katherine Tonks from Cazenove in London. Please go ahead, madam.

Katherine Tonks - *Cazenove*

Thank you. Your offshore EBITDA margin seems to be lingering around 4% for about five quarters now and it's a lot lower than it has been over the last few years. Even adjusting for contract timing is that a permanent shift downwards or can we expect margins to come back up to historic levels?

Daniel Valot - *Technip - Chairman, CEO*

Well, we provided a lot of information on our margins we try always to please you by giving more details. So in the presentation which is on the Web site, you'll find a slide which shows the breakdown for the offshore division between the SURF activity and the facilities. And I think this is something which might be useful for you. It's the slide Number 5.

Katherine Tonks - *Cazenove*

I'm sorry, I'm talking about the onshore branch.

Daniel Valot - *Technip - Chairman, CEO*

Sorry?

Katherine Tonks - *Cazenove*

The onshore branch?

Daniel Valot - *Technip - Chairman, CEO*

Your question was on the onshore, sorry, I didn't understand. On the onshore downstream, there is a slight decline in EBITDA margin between the first quarter of this year, the second quarter of this year. I don't think this is very significant.

We said at the beginning of this year that the first half of the year would be more or less in line in terms of profitability for this division to the first half of 2002, and we are in this process. I wouldn't give too much importance to a .2 or .3% difference between one quarter and another one. Project speaking, it's not relevant.

We are in a situation in which our backlog has continued to grow so we have additional business, additional contracts being started. When those contracts start, as I said before, they generate incremental revenues for which typically we don't recognize any margin. So as long as we are in the process of moving the backlog up, the new business we generate revenues but no margin, tends to depreciate a little bit the overall margin rates.

But overall, I don't think there is a trend to us lower downstream margins. On the contrary, I believe we are now in a situation in which those margins, I mean, the margins we're recognizing in our books, should improve as the maturity of our contracts goes on. Once again, when we start a contract, we book the revenues, we book no margin. When we go into the execution of the contract, we start gradually recognizing the margin.

Since a big chunk of the backlog of the onshore division is made up of contracts we've taken last year, it's no surprise that the overall margins recognized in our books this first half are more or less at the same level of last year. We have a lot of, if I may say so, unproductive revenues, revenues on which we don't recognize any margins. The trend is that we should start recognizing more margins in the coming years on those contracts.

Katherine Tonks - *Cazenove*

So your margins could get back up to the 8% level we saw in 2001?

Daniel Valot - *Technip - Chairman, CEO*

I do hope that we will reach this level of 7 or 8% when we go to watch the completion of those major contracts.

Katherine Tonks - *Cazenove*

Okay. And quickly, could you quantify the impact of the loss-making contracts on these divisions so we can get a feel for the underlying performance?

Daniel Valot - *Technip - Chairman, CEO*

Sorry, you wanted to have the breakdown of the provisions we've taken for losses on those contracts?

Katherine Tonks - *Cazenove*

Yeah.

Daniel Valot - *Technip - Chairman, CEO*

Between the branches?

Katherine Tonks - *Cazenove*

Yes, please.

Daniel Valot - *Technip - Chairman, CEO*

I don't have that in mind. I would say there is probably a little bit more offshore than onshore.

Katherine Tonks - *Cazenove*

Okay.

Daniel Valot - *Technip - Chairman, CEO*

I don't have the breakdown in mind.

Katherine Tonks - *Cazenove*

Okay. Thank you very much.

Daniel Valot - *Technip - Chairman, CEO*

Thank you.

Operator

Thank you. The next question comes from Mr. Duncan Goodwin from Merrill Lynch in London. Please go ahead, sir.

Duncan Goodwin - *Merrill Lynch*

Good afternoon. There's been some recent press speculation with regard to some U.S. export control officials investigating technique with regard to some speciality pumps made in the U.S. being exported to Iran. I wonder if you had any comments or could clarify the situation there please?

Daniel Valot - *Technip - Chairman, CEO*

I didn't know until today that Technip was so powerful in the world. I even read a paper saying that, in fact, we were helping Iran to build its nuclear program, you know. So we are now among the big powers in the world. No, seriously speaking, we are working on several projects in Iran, one of them is the ninth petrochemical complex. This is a petrochemical facility which will produce special plastics. To complete this speciality we need to import some pieces of equipment.

The pieces of equipment which has been mentioned was supplied by a French supplier and we have a certificate of origin. Now it seems that this French supplier took some subcomponents from other countries, including probably the United States, but as long as we are concerned, we did our job as we should have done, we didn't violate any law or regulation. We got a piece of equipment purchased from a French supplier with a certificate of origin. We mentioned to the supplier that this equipment should go to Iran so they know about it. And that's everything I know on this topic.

Duncan Goodwin - *Merrill Lynch*

Okay. Thanks for clearing up that one. Just a second question. Going back to these two contracts with the possibility of further cost overruns. I mean, what is the timing for actually realizing when or when not these cost overruns could occur? I mean, will it be right up until the end of the contract or should you be a bit more clarity closed nearer to the time?

Daniel Valot - *Technip - Chairman, CEO*

The provisions, you know, in our business, we recognize the margins in a very prudent and gradual way. When there is a loss identified, we take a provision which hit our bottom line as soon as the loss is identified. We identify those losses in the recent past and all the provisions have been recorded in our books in the past quarters, including the second quarter. Okay.

When will this story end? On those two contracts, one of them is finished. Now the matter is a dispute with the customer. And I do believe that the outcome of this dispute can be either zero or plus for us.

On the other one, it's a contract which is now in the installation phase. This installation phase will be completed by February this year. So by the end of this year, we will know pretty well whether the provisions we booked were adequate or not. And I'm very confident to date that they should be adequate.

Duncan Goodwin - *Merrill Lynch*

Okay. Thanks very much.

Daniel Valot - *Technip - Chairman, CEO*

Thank you.

Operator

Thank you. The next question comes from Mr. Joe Morris from Morgan Stanley in London. Please go ahead, sir.

Joe Morris - *Morgan Stanley*

Hello, good afternoon. I had a question. There's a reference in the bottom of page 4, saying the group hasn't had approximately Euro 600 or 700 million worth of contracts which should enter into the backlog in the second half of 2003. Is that what you would consider the pre-backlog or is that another number? And kind of as a follow-up to that, it looks like if you add up what you've won thus far and then add another 700 million your backlog will actually be falling by roughly 500 million to a billion by year-end. Is that kind of how you see things shaping out? And also if I could give a quick update because there's been sort of---.

Daniel Valot - *Technip - Chairman, CEO*

To be more specific, the contracts, main contracts which have been awarded after the end of June, our first Sapphire field in Egypt which is an extension of our contract for Simian, this is in force.

The long-term key contract awarded by Saudi Aramco for the DHT at their refinery in Riyadh, it's a Saudi Aramco project so it gets enforced as soon as it's signed because Saudi Aramco pays out of their own cash flow they don't ask for external financing. The contract awarded by CNF or Baobab is in force. The contract awarded by Statoil Snohvit is in force.

So those contracts have nothing to do with the pre-backlog that have been booked, signed during the third quarter and they will be booked in our backlog during the third quarter. They are booked in our backlog in the third quarter.

We still carry a small pre-backlog which is made up of contracts which were signed at the beginning of this year for which there is a need to get an external financing, but it's really minimal. And the top two contracts in the pre-backlog are the Steamcracker in Iran, which the third one, the one we signed at the beginning of this year which would be bid on the Kharg Island, worth 117 Euros, approximately. The ninth complex polyethylene again in Iran, hundred, around and a few others probably. So all together, I would say the pre-backlog to date should be something like 300, 400 in the onshore division.

Now, we have also another contract for which we are waiting the contract to come in force, that's for the industry's branch. And it's the contract signed with [BISHONETTE] at the beginning of this year for the aluminum smelter in South Africa. This contract was 600 million Euros, 50% for us. The [BISHONETTE] is trying to put together the financing.

Needless to say, the future of this contract is also probably can be impacted by what is going to happen between [ALCAN] and [BISHONETTE]. But that's about the extent of our so-called pre-backlog to date. So it's a rather small one and manageable one. It's no longer the big overhang we had during 2001 and beginning 2002.

Joe Morris - *Morgan Stanley*

Great, thank you.

Operator

Thank you. Thank you. The next question comes from Mr. Lionel Sharmadon from Morgan Stanley. Please go ahead, sir.

Lionel Sharmadon - *Morgan Stanley*

Good afternoon, a follow-up question on this backlog. Can you specify the Technip's share of the potential award on the P51, P52? And also is it included in the 600 to 700 million worth of contracts that you expect to be awarded by year-end?

Daniel Valot - *Technip - Chairman, CEO*

No, no, no, no, no. The 600 to 700 hundred mentioned in our press release is the addition of the contracts we've listed. Sapphire, Riyadh, Baobab, and Snohvit. It's nothing else. We expect of course to add new awards before the end of this year, but we don't put any numbers on that.

On the P51 and P52, we are doing the engineering and procurement services and project management together with [FIRSITAL], so our share of the JV with [FIRSITAL] would be something like 20%, 20, 25%.

Lionel Sharmadon - *Morgan Stanley*

Okay. Another question on your -- on the goodwill amortization charge, it seems that it's increased sequentially by about $3 million. Is there a trend or can we expect this charge to remain roughly at the same level going forward?

Daniel Valot - *Technip - Chairman, CEO*

There is no reason whatsoever to have changes in the.

Unidentified

It was only an exceptional impact on the first quarter which was due to the [inaudible] of the acquisition price of the Aker Deepwater Division. We had to restate the goodwill so the goodwill participation level for the second quarter will remain stable in the future.

Lionel Sharmadon - *Morgan Stanley*

Okay. And maybe a last one. Can you detail the different LNG projects you've got on target in your onshore division both from the liquefaction and regasification front?

Daniel Valot - *Technip - Chairman, CEO*

Okay, to date we are working on two main projects. One in Nigeria which is the Number 4 and Number 5 trains of liquefaction in Nigeria and we're expecting Number 6 train to be awarded before the end of this year. It's as you know very large projects in which we are working as a member of the JV with three partners, KBL, Halliburton Group, [inaudible] and JJC.

Another project on which we are currently working is the extension of Qatar gas in Qatar, which is an increase of 50% in the size of the facility. And this is a project on which we are working under JV with [inaudible] of Japan, 50/50.

On the other side, we got during this first half a success which we believe is of significance, even if the numbers today are small. It's a feed for an LNG terminal in the U.S., close to Houston in Freeport. It's a project on which we've been working for quite some time and we've been awarded a contract by the client to go ahead with more detailed studies, so that if the permitting is granted, and we believe there are good chances that this project can get full permitting, it might very well become by first quarter next year full EPC contract to build a facility.

Other than that, we have been selected for the famous Trend I at [BONGTANG] in Indonesia but the project so far, the client still is firm on the bottom but they didn't push the button yet so we are waiting. We lost the other major project in Indonesia called [TANGU] for a competitor which was more aggressive than us.

We are looking at other projects, especially in Iran. You know Iran is trying to get also in the LNG game and they've got several projects, the most advanced is the one [inaudible] by [inaudible] themselves without foreign partners. We are making studies for those companies because a number of companies have so-called projects in Iran. So we are making preliminary studies for them. So I think we are pretty active and it's, as you know, one of the main targets of this company to become a bigger player in LNG in the future.

Lionel Sharmadon - *Morgan Stanley*

Okay. Thank you very much.

Operator

Thank you. The next question comes from Mr. Stephane Bensoussan form Exane. Please go ahead, sir.

Stephane Bensoussan - *Exane*

One very quick question. On the onshore division there is a decrease in the depreciation, it's half the number it used to be. What is the reason and could you say what could be the recurrent number going forward?

Daniel Valot - *Technip - Chairman, CEO*

Well, it's a tough one.

Stephane Bensoussan - *Exane*

Yes, it's small but --

Daniel Valot - *Technip - Chairman, CEO*

Oh, I don't know. We'll have to dig that, you know, we usually depreciation is not really a matter of concern in the onshore division.

Stephane Bensoussan - *Exane*

Yes, I know.

Daniel Valot - *Technip - Chairman, CEO*

I don't know whether this is related in one way or another to the fact that we moved from our former premises to the new tower, and that might have generated a change in what we take into account as -- because you know, most of the very small capital expenditures in this division, it's buildings and computers. So, properly speaking, I don't know the answer but we will dig on that and Chris Welton will call you back to give you the answer.

Stephane Bensoussan - *Exane*

Okay. Thank you.

Operator

Thank you. The next question comes from Miss Danielle Soraya from Olympus in London. Please go ahead, madam.

Danielle Soraya - *Olympus*

Good afternoon, gentlemen. You mentioned in 2002 you went through a period where orders were delayed. We've been hearing of late from particular some companies involved in the FPSO business that we're going into a phase also where large contracts are being delayed for such-and-such reason. What has been your experience as far as that's concerned and do you expect indeed in the second half of the year a slowdown in the award of contracts?

Unidentified

Well, not really. There were some breaks in the recent past, and apparently those breaks are no longer working. You know, one of the main factors, for instance, last -- during those past years in Angola was the concern of the authorities about gas flaring. So they wanted the companies to come up with a solution for the associated gas which is not easy to find in this country because there is not a massive production of gas which would allow for an LNG facility, but there is some gas associated on each field so unique to find a solution which involves the [inaudible] cooperation of several oil companies at the same time. Apparently this thing is now behind us.

I don't know exactly which kind of agreement they made together, between the companies and Sun Angol but we don't hear any more about the story. So the projects which were stuck pending somebody's approval are now coming on the market one after the other. We are -- we took a few of them this -- during the first half, but there are some others coming.

What is hot today is Block 18, the Block by DP which might very well come up during the second half. In Nigeria it was also for different reasons probably, there were some delay on some projects, for instance, a project like [inaudible], has been delayed and delayed and delayed again. It seems now that this project is going to be put on the market for companies like us in 2004. So -- and [inaudible] by [inaudible] is Nigeria, too. So I've got the feeling that we've been through a bit of time in which those projects were delayed but that now they are coming on the market one after the other.

Danielle Soraya - *Olympus*

Uhm-hmm. Thank you.

Operator

Thank you. The next question comes from Mr. Peter Vestal from One Investments in Switzerland. Please go ahead, sir.

Peter Vestal - *One Investments*

I found the slide you mentioned on contract completion and I did a bit of quick math and it led to two questions. One is on the onshore division, quite a lot completes in the first half of the major contracts, not so much in the second half. Do you think that will have an impact on profitability in the second half of the onshore division? And secondly, if I do some totaling up of these numbers, there's a contract that completes right at the end of 2004 so I suppose it depends on which side of the line it falls but does appear that completion's in '04 are significantly less still than '03. Can you offer any comment on that the implications that has for margins in '04? Thank you.

Daniel Valot - *Technip - Chairman, CEO*

That's tough questions. I would say that you have to realize that this contracts schedule is something we provide because it has been asked by the financial community. But as soon as it's printed, it's become oldish because there is each quarter new contracts being put on our backlog.

Peter Vestal - *One Investments*

Excuse me for interrupting, but presumably the major contracts, the completion, anything you take now would be for '05 so the '03 and '04 pictures should be relatively fixed for major contracts?

Daniel Valot - *Technip - Chairman, CEO*

Yes. That's true. For the big ones, you're probably right. So can we take your questions one after the other, please?

Peter Vestal - *One Investments*

Please. The first question was just on looks as though onshore quite a lot completes in the first, say, two thirds of the year, and not much in the, maybe for the whole second half. Just wondering whether there was an implication for margins, therefore, in the second half of this year?

Daniel Valot - *Technip - Chairman, CEO*

Well, okay, please, let me try to correct that a little bit. Because it's true that there is a relatively small number of projects being completed during the second half but at the same time during the second half, other projects which will be finished in 2004 are increasing their rate of completion moving from 20% to 30% during the period. So when -- as they go in terms of rate of completion, we are also entitled to recognize some margins in our P&L.

So it's of course very tempting to look only at the projects which come to completion during the [inaudible] we look at but the other projects are also moving from 0% to 100% completion at the same time. So it's not that easy.

But to answer your question in a nutshell, we said at the beginning of this year that for onshore we were anticipating a first half which would be more or less the same in terms of profits than the first half of 2002, and that's what happened. For one reason, we choose that -- we are at the beginning of the execution of the large contracts booked in 2002.

And so we at this time we were anticipating to see some improvement in margins recognized during the second half and that this would accelerate in 2004. We are still in the same position. There should be some improvement during second half, but the improvement will really materialize in 2004 as most of those 2002 contracts will be in full fledge being 60%, 70% complete at this time. Okay?

Peter Vestal - *One Investments*

Okay. I understand. Thank you.

Daniel Valot - *Technip - Chairman, CEO*

Thank you.

Operator

Thank you. The next question comes from Mr. Andrew Withock from William DeBroe in London. Please go ahead, sir.

Andrew Withock - *William DeBroe*

Good afternoon. I was just wondering if you could talk a little bit about the changes to working capital that you're expecting over the second half of this year, and what that might mean for gearing, as you move out of 2003?

Daniel Valot - *Technip - Chairman, CEO*

Well, as I said before, we've been in the usual spike in gearing at midyear, we had the same picture last year. If you look at our numbers last year we started the year with a 40% gearing. We went up to 44% at the end of June and we were back to 25% at the end of the year.

It's always risky to give you guys some projections because if we are not yet on, just on target, we are beaten to death. But we would expect to have more or less the same trend this year.

So go back to something pretty close to what we had at the end of last year, because we had some, as I mentioned, some down payments which were supposed to come to the company in the connection with the big contracts we signed during the first half for which the actual payment took place in the third quarter.

We have also the fact that we will sign additional contracts which will also generate down payments and finally, we have two installments which have to be taken into account, first small but nevertheless the last payment by Aker on the adjustment of the purchase price, the final payment on the price of our building in Paris, which is more substantial, since it's 90 million bucks, we will get between Christmas and year-end. And so we are rather confident that our debt ratio should be much lower than 35 and probably not very away from what we ended the year last year.

Andrew Withock - *William DeBroe*

So to clarify that, I mean, if you sort of strip out the effects of the building disposals, that you expect working capital to change in your favor over the second half of the year?

Daniel Valot - *Technip - Chairman, CEO*

Yes, sure.

Andrew Withock - *William DeBroe*

Right. Okay fine, thank you very much.

Operator

Thank you. As a reminder if you have a question, please press the star followed by the 1 on your touchtone phone. If you wish to withdraw your question, please press the star followed by the 2. The next question comes from Mr. Peter Lynch from Citigroup. Please go ahead, sir.

Peter Lynch - *Citigroup*

Good afternoon. Two questions if I may. First question, just looking at your backlog numbers, the change, absolute change in onshore downstream backlog between June and March of this year seems to have been fairly limited. Is that an indication that you're at limit of capacity in this division? And second question, you mentioned earlier, quite a lot earlier actually, that you had trouble meeting your net income forecast for this year. Any guidance or new guidance on that figure at the net level and any idea when you'll back on track?

Daniel Valot - *Technip - Chairman, CEO*

On which, I'm sorry?

Peter Lynch - *Citigroup*

Oh, net income. Okay. First question was about backlog of the onshore division during the quarter, right? That's it, yes.

Daniel Valot - *Technip - Chairman, CEO*

Moving up by 1%. It doesn't mean that we have enough business and that we don't want to sign any new contracts. We would be, as always, happy to sign additional good contracts with good margins. And by the way, we're expecting some relatively large contracts to be awarded to us before year-end.

They are several opportunities including one we've been talking about for quite some time now, which is the refinery in Vietnam for which we are in the final negotiation stage now for almost one year. So, but we are as patient as the Vietnamese are, so at the end of the date [inaudible]. But we have several other projects coming, looking at the change in backlog during one single quarter is not particularly significant.

Second question, only the net income for the year, I believe I said all I could say. We are making, I believe, a nice progress in terms of operating income. By the way, if we had the same exchange rates and the same consolidation scope during first half of this year than last year, our operating income would have been up 19% and not 10%, as is shown in our numbers. So we are making some nice progress on the operating income level.

That -- and we also progressing in terms of financial charges, since we don't suffer any more from the foreign exchange losses generated last year by our Brazilian affiliate, so we're in better shape for operating and financial. We are not in good shape for taxes. So it might very well be that we are not able to meet our target for 15% progress on net income, that's very true.

Peter Lynch - *Citigroup*

Okay, thank you.

Daniel Valot - *Technip - Chairman, CEO*

Thank you.

Operator

Thank you. Mr. Valot, there are no further questions. Please continue with any other points you wish to raise.

Daniel Valot - *Technip - Chairman, CEO*

Well, there is no other point I want to raise, I just want to thank everybody for their interest in the company and give you a rendezvous in November for third quarter numbers. Thank you very much.

Operator

Thank you for your participation in today's results conference call. I would like to clarify that the replay of this call will be available within the next two hours. The replay will be on our Web site www.Technip.com in the Investor Relations section or by dialing +44-208-797-2499, using the confirmation code 934232 hash. Or by dialing +33-170-99-3295 using the confirmation code 132066 hash or by dialing +1-303-590-3065, using the confirmation code 21016296 hash. The replay will be available for seven days. Thank you and good-bye.