

FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Thierry Pilenko

Technip - Chairman and CEO

Kimberly Stewart

Technip - VP IR

Olivier Dubois

Technip - CFO

Bernard di Tullio

Technip - COO

CONFERENCE CALL PARTICIPANTS

Stephen Williams

Simmons & Co - Analyst

Alejandro Demichelis

Merrill Lynch - Analyst

Christyan Malek

Deutsche Bank - Analyst

Chris Walton

LCM Research - Analyst

Martijn Rats

Morgan Stanley - Analyst

Thomas Deitz

ABN Amro - Analyst

David Phillips

HSBC - Analyst

Herve Gay

SG Securities - Analyst

Mick Pickup

Lehman Brothers - Analyst

Bill Herbert

Simmons & Co - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to Technip's fourth quarter and full year results 2007 conference call. As a reminder, this conference call is being recorded. At this time, all participants are in a listen-only mode. Later, there will be a question and answer session. I would now like to turn the call over to your host for today's conference call, Mr. Thierry Pilenko, Technip's Chairman and CEO. Please go ahead, sir.

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Thierry Pilenko - *Technip - Chairman and CEO*

Good day, ladies and gentlemen, and thank you for participating in Technip's conference call. I am Thierry Pilenko, Chairman and CEO of Technip, and with me are Olivier Dubois, our CFO, Bernard Di Tullio, our Chief Operating Officer, Kimberly Stewart and Xavier D'Ouince, our Investor Relations team.

I would like to take this opportunity to welcome Kimberly Stewart, our new Investor Relations manager, who has joined us on January 30. So before I comment on the 2007 fourth quarter and full year results and the following -- the traditional Q&A session, Kimberly will first remind you the conference traditional rules. Kimberly?

Kimberly Stewart - *Technip - VP IR*

Thank you, Thierry. I would like to remind participants that you can download the 2007 fourth quarter and full year results press release and presentation on our website, technip.com.

Statements in today's press release, as well as those made during this conference call, which are not historical facts 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 which are integral parts of today's earnings press release and slide presentation.

Also, a replay of today's call will be available on our website approximately two hours after the call ends. I would like now to turn the call over to Thierry Pilenko, Chairman and CEO.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Kimberly. Just a few words about our total 2007 year and our fourth quarter and some highlights.

First of all, we finished 2007 with the revenue up 14%, but with contrasted results on the profit -- the operating income side, and with operating income down to \$247m (sic - see presentation) as compared to EUR330m last year. So our operating margin was 3.1% compared to 4.8% last year, and our net income was EUR126m compared to EUR200m last year. Our earnings per share is EUR1.2 as compared to EUR1.86 last year. And our proposed dividend per share is EUR1.2, an increase from last year, which was EUR1.05.

Now let me give you some highlights about the last quarter before I give you more details and more flavor on the full year. First of all, our SURF business had a record operating margin from recurring activities, at 18.5% in the fourth quarter.

On the Onshore/Downstream business, our legacy contract portfolio has been clarified following substantial charges mainly associated with the situation in Qatar. I remind you that these charges cover all four projects in Qatar and are calculated on forecasted results and completion of the projects. The corresponding charge has been EUR200m. In addition to this EUR200m, we recognized EUR70m charges on the contracts that were close to completion.

CapEx program is accelerating. Our new deepwater pipelay vessel construction contract has been awarded to a shipyard in Korea, to STX in Korea. And we have started -- we have signed a land lease for our new flexible pipe manufacturing plant in Malaysia.

Last but not least, we have signed the largest ever SURF contract on the Pazflor field in Angola.

Now, let me turn to 2007. So as I said before, revenue was up 14% and our Group order intake was EUR7.2b, up 17%. The results by segment were in line with what was announced on January 30, when we pre-announced our results for 2007, with new an

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operating margin of the SURF business of 15.8%, of the Offshore Facilities business of 4.8%, of the Onshore/Downstream business, which has been affected by the charges, the margin was minus 3.9%, and our Industries business margins were 6.5%.

So, as you could see, we had a record operating performance in SURF, with continued quarterly improvement in 2007. And we reached a return on capital employed for this business, which is requiring a capital -- we reach a return on capital employed of 18%. Our Offshore Facilities, we have recorded an award of the P-56 platform in Brazil. And on the Onshore/Downstream, as we have clarified Qatar and other legacy contracts, we have also recorded the conversion of the Khursaniyah project in Saudi Arabia, which in August of last year was converted from reimbursable to a lump sum turnkey.

Last, we have started our EUR1b CapEx program over the period 2007/2010 and this program is on track, with about EUR270m spent in 2007.

I would like now to say a few words about the evolution of our portfolio of activities. So one of our key strategies for 2007 was to build a more balanced backlog between our different segments, between our different regions and between different contractual schemes.

So, starting with the backlog by segment, we have seen in 2007 an increase of our backlog of the SURF business, our most profitable business segment, from 26% to 37% at the end of 2007. And we have seen a decrease of our backlog of our Onshore/Downstream business from 65% to 55%. In terms of market split, Technip continues to be present in the most promising market segments, such as deepwater, gas, refining and petrochemical.

In terms of region backlog, we have also seen a shift from 2006, where at the end of 2006, out of a \$10b (sic - see presentation) backlog, we had about 50% of our backlog in the Middle East. At the end of 2007, only one-third of our backlog, or 34%, was in the Middle East, with an increased backlog in Europe, Africa and the Americas. So this gives us a much better exposure to different parts of the world, where we have a significant activity increase.

In terms of contractual schemes, our strategy in 2007 was to try to reduce the share of pure lump sum EPC contracts in the Onshore segment. And for those of you who have the slides online, you will see that at the end of 2006 our order intake was about \$3b (sic - see presentation) and 71% of this order intake was pure EPC lump sum, the rest being other types of contracts which consist of FEED, engineering and procurement or engineering procurement and construction management, contracts that are in general much less risky than pure EPC lump sum.

At the end of 2007, the order intake was again EUR3b, but our mix between pure lump sum and the rest has significantly changed, with only 43% of our order intake corresponding to pure EPC lump sum. So this shift gives us a much more balanced portfolio between contracts that contain a significant portion of construction and contracts that are limited to engineering, procurement or a mix of the two, or engineering, procurement and construction management.

So, at this stage, I'd like to make just a quick summary about what we think our outlook for 2008 should be. So, in 2008, we expect Group revenue around \$8b (sic - see presentation). We expect 10% growth in the Subsea business, Subsea business revenue. We expect the Subsea operating margin to remain above 15%, as we discussed in our strategy session in October, and the margin for our Onshore and Offshore businesses to average 3.8%. Therefore, our Group operating margin should be above 7.3%.

And, at this stage, we are ready to answer your questions. Thank you.

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QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS). Your questions will be answered in the order they are received. (OPERATOR INSTRUCTIONS). One moment please for the first question. The first question comes from Mr. Stephen Williams from Simon. Mr. Simon -- Mr. Williams, please go ahead.

Stephen Williams - Simmons & Co - Analyst

Yes, hi. I'm just interested in your statistic on the return on capital in the SURF business, getting to 18%. How would that look going forward? So, judging by how much it costs you to buy new assets and that you're expecting delivery of in the next few years, the current level of pricing you're seeing for projects over the next few years, would that be materially different?

Thierry Pilenko - Technip - Chairman and CEO

No. In fact, the level that we have, at 18%, is actually the level that we need to target, anywhere between 15% to 18%, to make sure that we get the right return on capital on these assets. Now, we have very good visibility for the Subsea business, obviously within 2008 and 2009, but way beyond that and even beyond the end of the decade. So I think we should be able to keep the margins at the level that should continue to bring us a return on capital for this business which is well above our cost of capital.

Now, the reason I'm saying that is because I believe there is -- although there is capacity coming in the market, there are many, many projects that we see coming, particularly in the deeper water, mainly in Brazil, Angola, Gulf of Mexico, but also in more mature areas such as the North Sea. So the demand for high-quality assets continues to be high and I believe the technology [qualification] will become even more important than before for these Subsea projects. So we should be well-positioned to continue to perform well with this business.

Stephen Williams - Simmons & Co - Analyst

Okay, thanks. And one more on the flexi-pipe expansion. You've obviously added capacity already this year and we're expecting more in a couple of years' time. Is there currently a global market constraint in the capacity for flexible pipe?

Thierry Pilenko - Technip - Chairman and CEO

I think today, probably the total -- our total capacity is fully utilized with long-term visibility on the flexible pipe. I can see that the global worldwide capacity is utilized maybe not in the same level of productivity as our plans, but there is definitely a growing demand. And we can see that Asia is going to be a market where the demand is going to increase, particularly in Malaysia and Australia, in the next few years. So the additional capacity that we are bringing to Asia, in the order of about 200 kilometers a year, should be very easily absorbed in that market.

Stephen Williams - Simmons & Co - Analyst

Okay, thank you.

Operator

Mr. Alejandro Demichelis from Merrill Lynch. Please go ahead with your question.

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Alejandro Demichelis - *Merrill Lynch - Analyst*

Yes, just one question. In your press release you mentioned that in 2007 the construction market was extremely tight, and I was wondering if you can give us an update of how you see the construction market in 2008 and beyond. And the other part of the question is maybe you can tell us, on the LNG projects, how far advanced are you in the construction process, i.e. have you actually started the construction work in the Shell and the ConocoPhillips projects.

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. So the tight market in the construction business is, I would say, a [well-known] issue. And it is -- it has been particularly acute in the Middle East, because the Middle East used to have access to almost unlimited resources out of India, and Asia in general, but India, the Philippines and so forth. And this [is why] skilled resources have dried up as more projects were being awarded across the board, not just oil and gas projects, but construction projects awarded in India and in other parts of Asia. So we don't expect that this situation is going to cool down very soon. However, I think the past couple of years have seen a very, very rapid increase of the demand and construction, so contractors are getting organized to respond. So the market will probably remain very tight. Therefore, we will have to be very selective in the projects we take and with the resources that are allocated to new projects in particular.

Now, as far as the LNG projects are concerned, of course the construction is well-advanced in all of these projects, and more advanced on Qatargas II, which is the first object that was awarded at the end of 2004. On the last one, which is Qatargas III and IV or QCS, construction has started. And I'm not 100% sure about the percentage of completion of the construction phase, but I think it's somewhere between 15% and 20%.

Alejandro Demichelis - *Merrill Lynch - Analyst*

All right. So in that case, when you mentioned that the provision covers all four projects, this is just covering what you see as that stage of completion?

Thierry Pilenko - *Technip - Chairman and CEO*

Yes, but we have taken into account -- we have a much better understanding today than we had in 2004 about what the situation is now and what it will be during the duration of that Qatargas III and IV project. Okay? What has happened in Qatar is that many, many projects, beyond the LNG projects, there were also many other projects that had been started at the same time. And I think we will probably see a plateau in the end of 2008/2009 timeframe in terms of demand for additional resources. As you see, there is -- as you know, probably there is a moratorium on the gas reservoir in Qatar. So there won't be new gas projects before a long time in Qatar, at least before our clients will have had time to evaluate the consequences of drawing the gas and drawing the plan to draw it on the reservoir performance and depletion.

Alejandro Demichelis - *Merrill Lynch - Analyst*

Okay, that's great. Thank you.

Operator

Mr. Christyan Malek, please go ahead with your question.

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Christyan Malek - Deutsche Bank - Analyst

Hi, good afternoon. Two questions, if I may. The first is there's a clear disparity in margins between the Offshore SURF and the Onshore business. I'd just like to understand what sort of -- can you walk me through the differences in the execution risk mechanisms between the two? Being more specific, how differently are the project managers accountable in both types of businesses, the risk mitigation systems in both types of businesses, and maybe just explain why it is that the margins have become so different. And I know we've touched on construction being an issue with Onshore, but perhaps just more structurally, what are the differences?

And the second question, if I may, in terms of the subcontractors you've got in Qatar, what -- do you have any guarantees from the construction companies that you're working with on these four projects that have led you to draw a line on these charges? Are they actually written guarantees or is it more negotiations ongoing of a verbal type?

Thierry Pilenko - Technip - Chairman and CEO

Okay. Two good questions, Christyan. The differences of the disparity, as you said, between the margin of the Subsea business and the Onshore business is something which is to be expected, not such a great disparity here. Not only is that we have a negative margin this year, but the fact that there is a disparity between these two businesses is to be expected. And you mentioned that years ago the margins were closer and more alike, but I would say that at that time the anomaly was that the Subsea margins were too low. They were actually below -- the returns were below our cost of capital, and therefore we needed to go back to a level of margin which I believe today is the best in class margins for this type of activity, which are above 15% and well above 15%. So -- and that's normal, because this business is a capital-intensive business. This business requires that we plan ahead, that we maintain our fleet and that we plan ahead for new assets, as we are doing, that we build new vessels for the deepwater, that we build new plants for the growing market and so forth.

So -- on the other hand, the engineering and construction business of Onshore/Offshore being the platform for the large or smaller projects such as LNG, refining, petrochemical and so forth, this business is not capital intensive. Actually, we are working this business with a negative working capital. And this is a business that is cash rich but margin poor, and with low margins in general. And the problem that we have had here was not about the fact that they are two businesses that are different. It's about risks that we have taken on very large projects and that materialized during the construction phase have a cost of material and cost of labor and labor access became difficult.

Now, are we managing projects differently between the Subsea and the Onshore? The answer is yes, because the business is of a different nature. In the Subsea business, we have a vertically integrated business model, we do the R&D, we do the design, we do the engineering, we do the manufacturing, in many cases, of the flexible, and we do the installation with our own assets. So basically, we control a great deal of the supply chain. And it's all about executing well and making sure that you are on time with the right asset and the right method and procedure.

In the case of the Onshore business and the Offshore fabrication business, for the construction or the fabrication we rely on subcontractors. So the management of the project needs to make sure, right from the beginning, that the alignment with the subcontractors is correct, that the cost and the commitment from the subcontractors are made right from the beginning.

So that brings me to the second part of your question and about Qatar. Our strategy of negotiating these contracts or renegotiating these contracts in Qatar has been based on making sure that we obtain an alignment with the customer, ourselves and our subcontractors. And therefore we have been using an incentive system, I would say the customer has been using an incentive system, that would align us and our subcontractors.

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Christyan Malek - Deutsche Bank - Analyst

Perhaps just a follow-up question in terms of your subcontractors. I guess you can make comparisons to your peers in the industry that do most of their construction in-house and therefore have less risk or outsource, or they're outsourcing less risk and the margin realization is higher. Just going forward, is there a shift in strategy on contracts that you take on board within your Onshore business? Will you not rely on subcontractors? What's changing in your supply chain?

Thierry Pilenko - Technip - Chairman and CEO

What is changing is that -- yes. It's a good question. What is changing is that, first of all, as you can see if you have our slide set in front of you, in 2007 we have taken a smaller proportion of lump sum turnkey contracts that include construction. That's the first step, having a portfolio which is more balanced. It doesn't mean we don't do it. It means we do less of it. And the contracts that we have signed in 2007 actually were smaller-sized contracts of those that were on the Onshore/Downstream business in lump sum terms.

So, first of all, a different balance of the -- between contracts that are in lump sum turnkey for the construction phase and other types of contracts. Secondly, what we have done is that we are not bidding on all the contracts that we see. We are very selective, particularly in the Middle East. There weren't many projects in the Middle East that have been awarded in the 2007 period. And we are selective and we are not going to go after all the projects that we see. Certainly, we want to make sure that when we start a project which has a significant construction part that we are very well-aligned with our subcontractors. That may mean bringing the subcontractors as partners in the joint venture agreement.

Christyan Malek - Deutsche Bank - Analyst

And I guess -- sorry, I don't want to hog the call, but just if you can -- I guess the most obvious question coming out of that is do you trust -- are the -- the portion which you've subcontracted in your projects last year, are they reliable and do you trust them?

Thierry Pilenko - Technip - Chairman and CEO

Last year, you mean 2007?

Christyan Malek - Deutsche Bank - Analyst

Yes.

Thierry Pilenko - Technip - Chairman and CEO

Yes. Yes, they are reliable contractors. And that's the key. The key is having the reliable contractors and the right contractual scheme with them, so that they are back to back.

Christyan Malek - Deutsche Bank - Analyst

Brilliant. Thank you very much.

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Thierry Pilenko - *Technip - Chairman and CEO*

And that means there are some parts of the world where we have decided that we would not take lump sum construction work, because we cannot find reliable contractors. Particularly places like Australia and North America, because we can't find this type of reliable contractors, we have decided that we will not bid lump sum turnkey projects any more in these countries.

Christyan Malek - *Deutsche Bank - Analyst*

Fair enough. Thank you very much, Thierry.

Operator

Mr. [Chris Walton] from LCM Research. Please go ahead with your question.

Chris Walton - *LCM Research - Analyst*

Good afternoon. Just a quick question. It looks like you took an income tax provision in the fourth quarter of between EUR15m and EUR20m in the form of not activating some tax deferred assets. Now, one of your competitors recently took a rather large provision for tax audits that they thought were not going to go against it, but they did go against it. Can you just tell us are there any tax audits ongoing? And if so, if the tax auditors were to be right in their assumptions, would the amounts be material?

Thierry Pilenko - *Technip - Chairman and CEO*

Olivier, can you answer this question?

Olivier Dubois - *Technip - CFO*

Yes. As you've seen, we did not recognize tax assets in proportion of the charges we have taken during the last quarter, since we consider that in some countries we would not be in a position to benefit from the tax credit in the three coming years. That's the reason why we have a tax credit in the fourth quarter which is lower than it could have been in proportion of the charge we have taken in this quarter. These figures have been fully audited with the system auditors and they are very comfortable with the assumptions that we have taken for these tax assets.

Chris Walton - *LCM Research - Analyst*

Are there any ongoing audits at the Group by, let's say, tax authorities from different countries?

Olivier Dubois - *Technip - CFO*

As you know, we have very currently tax audits from the tax authorities in various countries, and so far we have no specific difficulties to highlight on the tax side.

Chris Walton - *LCM Research - Analyst*

Okay, thank you.

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Thierry Pilenko - *Technip - Chairman and CEO*

I would certainly not draw any parallel between Technip and some of our competitors. This would be incorrect.

Operator

The next question comes from Martijn Rats from Morgan Stanley.

Martijn Rats - *Morgan Stanley - Analyst*

Yes, hello. I've got two questions, if I may. First of all, Middle East Economic Digest recently published an article in which they said that Qatargas had denied a EUR500m claim on the Qatargas II project. Now, given your 40% stake in that project, that corresponds with the EUR200m provision you announced recently. But then again, according to MEED, this was only -- this only related to Qatargas II, while you've reiterated again today that the provision should cover all projects. And I was hoping you could help me understand the math behind this.

And secondly, I had a question about depreciation, which seems to have made a bit of a jump in the fourth quarter relative to the first three quarters of the year, and I was wondering whether that's a one-off fluctuation or whether this will be more structural.

Thierry Pilenko - *Technip - Chairman and CEO*

So, I'll answer the first question. First of all, I would not rely on numbers that are published in the press, because these numbers you cannot verify where the sources are from, and I'm actually surprised by this number. I've seen it as well, because I receive the press and what is being said on Qatar, but I don't know what is the source of this number. And we are linked with our customers with a confidentiality agreement, so I will not go into the details of what we have in these contracts.

However, I reiterate what I said before, which is that the EUR200m is a provision, is a charge, which has been calculated based on an estimate of what we see on all four contracts, and with a signed agreement on the first one, on which we can have a very, very good estimate of the outcome of the other contracts. On the second contract, we are very well-advanced on -- well, actually on Rasgas III and AKG2, we are very well-advanced with the negotiations. So I confirm that the EUR200m covers everything we see on these four contracts.

Okay. And the EUR500m in the press, I'm sorry but I don't comment on what is in the press, because I don't know where the sources -- what the sources are and if they are reliable sources.

Martijn Rats - *Morgan Stanley - Analyst*

Okay, thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

And the second question?

Olivier Dubois - *Technip - CFO*

The second question about having the depreciation. First, you have the impact of additional equipment following the implementation of our CapEx program, which triggered additional depreciation. So it's not only a one-off impact. But in addition

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of that, you have also a one-off impact. Following an impairment test, we have decided to make a depreciation on one specific asset, [located above].

Martijn Rats - *Morgan Stanley - Analyst*

And would you be willing to say how much that is?

Olivier Dubois - *Technip - CFO*

I think that it was EUR15m.

Martijn Rats - *Morgan Stanley - Analyst*

Okay, thank you. And is that in the Subsea business?

Olivier Dubois - *Technip - CFO*

\$15m, so roughly EUR10m.

Martijn Rats - *Morgan Stanley - Analyst*

\$15m, EUR10m. And is that all an asset in the Subsea business, or in any of the other divisions?

Olivier Dubois - *Technip - CFO*

It was in connection with the Subsea business.

Martijn Rats - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Mr. Thomas Deitz from ABN Amro. Please go ahead with your question.

Thomas Deitz - *ABN Amro - Analyst*

Yes, good afternoon, gentlemen. I have a few questions, if I may. First of all, could you a bit elaborate on the timing of your project completions in 2008, I mean on quarterly phasing, so that we have a bit of an idea of how the quarters will pan out? That's the first question.

Second question, in order to calculate your underlying SURF margin, could you please give us the exact interest income related to the SURF business? You've given it for the SURF and Offshore Facilities business, but could we get the number for SURF?

And then, the guidance that you give for the SURF margin, again, does it include interest earned on the various projects?

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And then, last question, could you give guidance on the tax rate going forward? Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Okay, lots of questions. So I'll take the first one. We have hundreds of projects, maybe thousands of projects, at Technip at the moment. So, to give you an idea of which projects are going to be completed and how many are going to be completed by quarter would be -- I don't think it would be meaningful. Some of the large projects are going to be completed this year. We have the first train, for example, of QatarGas II is going to be completed in 2008. We are well-advanced in the Agbami project. We just finalized train 6, LNG project in Nigeria. But we have such a large portfolio of projects that -- and we were recognizing revenue and profit according to the progress of the projects. So therefore, we don't see any quarterly volatility linked to the completion of any single projects there, because we have [an output for those] projects.

So, for the other financial questions, I'll ask Olivier to --

Olivier Dubois - *Technip - CFO*

First one, concerning the split between certain Offshore, for the financial income which is included in our revenue, I would say that the amount concerning the Offshore platform is not really -- not material. It's probably something like EUR3m out of the EUR27m which has been disclosed here.

In terms of guidance, looking forward for tax, remember that I used to say that our medium-term target was to reach 25% effective tax rate. We should have been at something like 28%, 29% this year, without the charges we've taken during the last quarter. So we are now back to 37% for this year. I hope that, in the coming years, we will confirm the guidance of 25%, but I don't know. For 2008, we should be probably in the range of 30%.

Thomas Deitz - *ABN Amro - Analyst*

Okay, thank you. And the margin guidance for SURF, the 15% or the above 15%, does that include, again, interest earned as well on projects?

Olivier Dubois - *Technip - CFO*

It can include. It will depend on the contracts we will negotiate with the customers in the coming years. Since we managed to get positive cash flow situation on our projects, we will have financial income on these projects. And according to our accounting principle, this financial income will be treated as a revenue within the project. But it will depend, finally, on the legal and the contractual scheme of our contracts.

Thomas Deitz - *ABN Amro - Analyst*

Okay, thank you very much.

Operator

The next question comes from David Phillips from HSBS.

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David Phillips - HSBC - Analyst

Hi. HSBC, but close enough. A couple of questions, actually. Firstly, going back to Q3, you talked then, I think, about -- again, looking at the Subsea business, you talked, if a certain level of work did not materialize in a few months in West Africa, you would have to think about relocating vessels at some point. Now, clearly Pazflor has come into this mix. But in terms of how your fleet is spread out at the moment and how should we be thinking about the transit time you may have to see in 2008? Is there going to be a period in the first half where you're moving quite a few boats around?

And secondly, just really echoing a question I think I asked, actually, on your pre-release call a few weeks ago, looking at your capacity to handle Downstream work in the Middle East, if you were to win a share of, say, the Kuwait refinery or the one at Yanbu, how many of these sort of projects do you think you could realistically handle over the next one or two years? Thank you.

Thierry Pilenko - Technip - Chairman and CEO

Two good questions. When I referred about delays in West Africa, it's because some of the major projects in West Africa had not been awarded. And at that time, although we had great confidence, we could not tell our investors and tell the market that we were going to get into those projects, because we didn't have the signed contract and an award.

So what has happened since our last Q3 call is that, in particular for us and one of our competitors, Acergy, were in a joint venture with us on Pazflor, we have signed Pazflor. So what I have said is that if we have delays beyond the first quarter of '08 on this project, we would have had to reschedule vessels, probably. Now, it's not the case, because this project has been signed and we have started working on it, although the impact of this project will probably be more in the 2009/2010 timeframe in terms of all our revenue recognition and profit recognition. But we have started on this project, so no concern there.

As far as transit is concerned, the vessels that are needed for this project and others have to include transit for the key assets that have to be moved from one part of the world to another. But we are not like in the seismic business or the drilling business, where suddenly a lot of vessels have to transit because of bad weather in the North Sea and things like that. This is much more which vessel needs to be in what place and at what time, and this has been taken into account in our plan. And I think we should continue to enjoy a great -- a high level of utilization and great level of utilization in 2008, probably above 80%, like we did in the past couple of years. So transit is not an issue for us.

Now, the next one was about our capacity to handle large projects in the Middle East?

David Phillips - HSBC - Analyst

Yes.

Thierry Pilenko - Technip - Chairman and CEO

Yes. Well, I think we have shown that we actually have the capacity to handle a fairly large number of projects. Problem was not capacity to handle; it was the predictability of cost and productivity. And in fact, many of the projects in the Middle East are going well, being in Kuwait, being in Yemen, in Abu Dhabi or in the Emirates and so forth. And including in Qatar, by the way. We have other projects than the LNG in Qatar. So do we have the capacity to handle a large number of projects in the Middle East? Yes. Should we take many projects in the same country, where there is a resource crunch in that country? The answer is no. So we would probably prefer, we will prefer, to have projects which are staggered over time and preferably not all in the same country.

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David Phillips - HSBC - Analyst

Okay, thanks a lot.

Operator

Mr. Herve Gay from SG Bank. Please go ahead with your question.

Herve Gay - SG Securities - Analyst

Yes, hello, good afternoon. I have a question concerning your financial structure. Given the fact you have quite a large net cash position of EUR1.7b, I'd like to know what will be your optimal cash position, what would be your optimal financial structure. Do you have any targets in terms of debt or credit ratio? Are you happy with the rating downgrade to BBB by S&P a few weeks ago?

And also, if you could update us on your -- the consolidation of the sector and on any potential acquisitions you could do, in terms of type of targets, in terms of [rounds] of amount. Thanks.

Thierry Pilenko - Technip - Chairman and CEO

Okay. I'll let Olivier answer the question about the financial structure and the EUR1.7b and -- but I can answer the question about the downgrade on our rating. Do we like it? The answer is no, we didn't like it, obviously. But I'll come back to the consolidation question later on. Olivier, can you answer the question on financial structure, on the optimal?

Olivier Dubois - Technip - CFO

Yes. Concerning our financial structure to date, we are quite satisfied to have EUR2.1b of shareholders' equity, since the Group will continue to grow. And I think and I believe that we need to keep a very solid financial structure, in order to have access to the contracts we are shooting for. As you know, we must provide a lot of bank guarantees when a contract is awarded to us. And we need to keep a very solid financial position in order to have access to these bank guarantees at good conditions, especially in the current banking and financial environment.

So the cash position we have today is not resulting from an excess of shareholders' equity or an excess of long-term debt. It's resulting from the negotiation of our terms and conditions, especially the payment conditions, on our contracts. It's likely that, in 2008, we will spend some EUR100m, first because we have a very ambitious capital expenditure program. We have decided also to increase the dividend payment to our shareholders. And we will spend some cash on the contracts, on their execution. Part of these spendings will be compensated by down payments or new payments received on the new projects awarded next year. And it's likely that, at year end, the cash position will be a bit lower than it is today.

Concerning an acquisition and the leverage of our balance sheet, we believe that we could live with leverage up to 30%, at least for the first one or second year.

Herve Gay - SG Securities - Analyst

Sorry, how do you calculate your leverage?

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Olivier Dubois - *Technip - CFO*

It's a ratio of debt on equity issued.

Herve Gay - *SG Securities - Analyst*

Okay.

Thierry Pilenko - *Technip - Chairman and CEO*

Now, coming back to the consolidation of the sector, I think we are probably entering into a phase now, between the next maybe couple of years, where the valuation or the values of the different companies in our sector, the fact that they are reaching kind of a plateau in activity and where people are looking at alternatives to further enhance their productivity and their efficiency, I think we're probably entering into a period where consolidation will be possible.

I think it's probably desirable for activities that require a lot of assets, particularly if you want to start preparing the assets of the future. And I'm not talking about the type of vessels that many of us are building now. I'm more talking about the vessels that will be needed, particularly to install and produce the fields beyond 3,000 meters of water. And that will require significant capital expenditure, significant R&D expenditure. And I think consolidation will probably be levered also by the need to have a more efficient R&D and a better financial structure to tackle these projects. Now, how will we -- how will it happen? I don't know. And when? I don't know either.

As far as Technip is concerned, what we said in October during our strategic presentation is still holding, which is we would favor acquisitions or mergers that would bring technology, that would be accretive, that would have -- and with which we could achieve our financial targets, in terms of profitability. And -- but one element which is very important in our current environment is that consolidations need to be friendly and well-thought by management, because the main capital, even if we spend a lot of money on vessels and plants and so forth, our main capital is our people. And we know that the industry is facing a global shortage of competent people and skills. And therefore, a consolidation needs to make sure that this capital is preserved, to be successful. Well, that's our criteria - technology, accretion and intelligent integration, successful integration.

Herve Gay - *SG Securities - Analyst*

Okay. Just could you precise concerning your rating, because the downgrade was quite surprising? And I was wondering if you had any discussion with the rating agency before this downgrade, which was a bit surprising, because they went from an outlook stable to an outlook stable, without moving through a negative outlook or credit watch, which is rather unusual. And then, also, rationale for such a downgrade.

Olivier Dubois - *Technip - CFO*

No. In fact, the reason -- the rationale for this downgrade is linked with the poor profitability on the Onshore/Downstream business. And we had some working session with Standard and Poor's in the last weeks, but finally they decided to downgrade the rating of the Company without waiting for the release of the full-year figures. It's probably linked to the new financial environment, in which some banks are not very comfortable with some opinions they've released in the last months.

But in fact, concerning our situation, I can tell you that if you make the comparison with another BBB-rated company like Lafarge, which raised financings two weeks ago for the acquisition of Rascom, it gives you an order of magnitude of the order of spread that we would have to pay in order to finance an acquisition. The downgrade for us will not be extremely expensive, in terms of spread to be paid on new financing. It's more likely the new financial environment that will increase the cost of new financing, rather than the downgrade from BBB+ to BBB.

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Herve Gay - *SG Securities - Analyst*

Yes. All right, thank you very much.

Operator

Mr. Mike Pickup from Lehman Brothers is on line with a question.

Mick Pickup - *Lehman Brothers - Analyst*

Good afternoon. I think you've briefly touched on it before, there's a slide in your presentation on page 27 called Rigorous Bidding Policy, which for the first time, I think, you've set down a set of rules that you're now applying, which is good to see. Just a couple of them within there, one of them is priority is Technip is the leader. I know you've talked a lot about subcontractors, but can you explain why you want to be the leader? Are you having problems with some of your partners?

Secondly, in there I know you mentioned no lump sum exposure in Australia, but in my memory I can't think you've publicly had a loss in Australia. So can you just explain a few of the problems you've been having there?

And on a second note, it looks like Nigeria Offshore is beginning to start moving again. I know you're pretty well lined up for a part of Usan and that's one which seems to be coming onto the front-burner. Have you got any comments on that?

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. So the point number one, priority to projects where Technip is the leader. So our experience is that when we lead a joint venture -- many of these projects require that we work in consortium or joint venture, and we get together with other engineering and construction companies. Our experience is that generally, when we are the leaders, we get better results. Okay? So that's why, in an environment where we can choose projects, we would rather take a project where we know we can take the lead, keep the lead and be in charge, basically, because we better control our destiny in that case. Okay? So that's the point. It's not a point about having a problem, a specific problem, with a partner in a specific place. It's just that we want to control our future.

Australia and North America, why did we say that we don't want to do lump sum construction in Australia and North America? These are two specific areas where, very often, you don't have a real choice about your construction subcontractors. If I take Canada or Australia, you're forced to take a number of subcontractors that you -- that are not necessarily the best in the market. Subcontractors, construction subcontractors, often refuse to work back-to-back in a lump sum turnkey agreement with you. They have poor productivity, because they are unionized.

And therefore, you end up working with an unreliable subcontractor for which you cannot predict the productivity. And you're taking a commitment to the customer, a lump sum turnkey commitment, and you have to pay as you go for your subcontractor. So we have just decided that in this type of environment we will not play the game. We are ready to accompany our customers in engineering, procurement, construction management as well, but not taking the cost of the construction. So this is the discipline, I think, that will help, over time, improve the quality of our portfolio.

Mick Pickup - *Lehman Brothers - Analyst*

Okay.

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Thierry Pilenko - *Technip - Chairman and CEO*

So we don't want to take risks in places where we don't control -- where we don't know how to control these types of resources.

What was the last question?

Mick Pickup - *Lehman Brothers - Analyst*

Nigeria beginning to move.

Thierry Pilenko - *Technip - Chairman and CEO*

Nigeria. Well, in West Africa things are being awarded slowly, probably slower than everybody anticipated, but I think there will be decisions on Usan pretty soon. This project has been dragging for some time, but I think we are probably close to a conclusion. Now, whether Technip is going to have a share of this project - I'm not talking about the FPSO really, because we have not positioned the rest of the business - I can't tell you at this stage. And if something happens, maybe we'll have news to the market. But again, it's an important project, it's a nice project, but it's not a project that we will want to take if we see that there is too much risk of not making the right level of profitability.

Mick Pickup - *Lehman Brothers - Analyst*

Okay, thanks a lot.

Thierry Pilenko - *Technip - Chairman and CEO*

So, last question?

Operator

Mr. Bill Herbert from Simmons. Please go ahead with your question.

Bill Herbert - *Simmons & Co - Analyst*

Morning, Thierry. A couple of points that have been touched upon, first of all getting back to Qatar, the \$200m write-down. To reemphasize, you now feel that your portfolio with respect to that particular project has been completely cleansed of any material risk, going forward?

Thierry Pilenko - *Technip - Chairman and CEO*

That's the first question?

Bill Herbert - *Simmons & Co - Analyst*

Yes.

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Thierry Pilenko - *Technip - Chairman and CEO*

Okay. The provision is EUR200m. I may have said dollars in my presentation because (multiple speakers).

Bill Herbert - *Simmons & Co - Analyst*

Euros, sorry, yes.

Thierry Pilenko - *Technip - Chairman and CEO*

But it's EUR200m.

Bill Herbert - *Simmons & Co - Analyst*

Yes.

Thierry Pilenko - *Technip - Chairman and CEO*

And it covers all four contracts and it covers the risks for the duration of this contract until completion of this contract. Now, if your question is do you guarantee that this is it, the answer obviously cannot be yes. Okay? But we have calculated the provision based on a very good estimate of the timing, the risk and what customers will -- have already accepted to give us and what we think they are going to accept to give us in the future. So we have taken a charge that we think is very, very reasonable in front of that risk.

Bill Herbert - *Simmons & Co - Analyst*

Okay. And then, getting back to the consolidation point, now that you have basically cleansed your portfolio with regard to Qatar and that's largely behind you, I presume this gives you more flexibility and impetus with respect to thinking about combinations, acquisitions, what have you. Getting back to your parameters as relates to those -- to that point, you mentioned that accretion was one of those. Accretion with regard to what - current year earnings, forward year earnings, cash flow, how would you define accretion?

Thierry Pilenko - *Technip - Chairman and CEO*

I would prefer to define -- there are several ways, as you know, but accretion to earnings.

Bill Herbert - *Simmons & Co - Analyst*

Okay. With regard to --

Thierry Pilenko - *Technip - Chairman and CEO*

That would be my preferred way of looking at it. And you are absolutely right, the fact that we have clarified the horizon, as painful as it was, --

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Bill Herbert - *Simmons & Co - Analyst*

Right.

Thierry Pilenko - *Technip - Chairman and CEO*

Gives us now the opportunity to think more strategically.

Bill Herbert - *Simmons & Co - Analyst*

Lastly, with regard to project timing, we touched on Usan, could you give us an update as to where we stand on Block 31, in terms of the timing of that award?

Thierry Pilenko - *Technip - Chairman and CEO*

That's a good question. I don't have a crystal ball. I think this is probably going to be a little bit like Pazflor. We've been waiting for almost nine months for Pazflor.

Bill Herbert - *Simmons & Co - Analyst*

Right.

Thierry Pilenko - *Technip - Chairman and CEO*

And then we said, oh, it could drag for another three to six months, and then suddenly we were surprised with a decision. Bernard, would you say end of the year, decision, maybe?

Bernard di Tullio - *Technip - COO*

Yes, maybe a little bit earlier.

Thierry Pilenko - *Technip - Chairman and CEO*

Maybe earlier. Between Q3 and Q4 this year.

Bernard di Tullio - *Technip - COO*

Yes.

Thierry Pilenko - *Technip - Chairman and CEO*

We know -- what's very interesting in West Africa is that the international operators are really eager to start, because for them it's not only production; it's reserves, it's everything. It's all the criteria they are being evaluated on and valued on. But the national companies are picking up [signs] and I would say the good news is that those projects will happen. There's no doubt that they will happen. They need to happen.

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Bill Herbert - *Simmons & Co - Analyst*

Yes.

Thierry Pilenko - *Technip - Chairman and CEO*

The timing? The sooner -- I could say the sooner the better. It's good to have a quick decision, but it's not going to change our vessel plan if they decide tomorrow, so (multiple speakers).

Bill Herbert - *Simmons & Co - Analyst*

So you think it's unlikely that Block 31 gets awarded by mid-year?

Thierry Pilenko - *Technip - Chairman and CEO*

Mid-year is probably a little bit on the optimistic side.

Bill Herbert - *Simmons & Co - Analyst*

Okay, great. Thank you very much.

Thierry Pilenko - *Technip - Chairman and CEO*

But I'm confident that this is going to happen. And the good news about Block 31 is that it's about programs, it's not a one-off thing. And I think the idea of having programs, which is pushing by the -- which is being pushed by the customer, is a very good idea, to secure long-term work for the contractors. And I think it's the right strategy for the customer and the right strategy for us, so.

Bill Herbert - *Simmons & Co - Analyst*

Okay.

Thierry Pilenko - *Technip - Chairman and CEO*

I'm very hopeful that we will get our fair share of Block 31. We'll be patient. Q3, Q4, doesn't make much difference for us. Of course, we'd like the announcement, but in terms of activity, it's there. We know that we will have the capacity when we need it.

Bill Herbert - *Simmons & Co - Analyst*

Great, thanks very much.

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Thierry Pilenko - *Technip - Chairman and CEO*

Thanks, Bill. Okay? Well, ladies and gentlemen, thank you very much for attending our meeting today. So I just wanted to give you a very brief recap of where we stand at the beginning of 2008 and about the work that we did over 2007.

First of all, we have set our strategic framework, which you have understood is focused around our core competencies, oil and gas. We have now an organization which is streamlined. We have designed incentive systems that are really focused on profitability and we have clear objectives for 2008 and beyond. Our CapEx plan of EUR1b is in full execution and has been accelerated at the end of the 2007.

I hope we have brought to you the financial clarification that was needed on the Onshore legacy projects, particularly in Qatar. We have a Subsea business unit which is reenergized and which is now achieving best-in-class performance, and I believe this is coming from our vertical integration and our technology portfolio. Our backlog is \$9.4b (sic - see presentation) at the beginning of this year and it is more balanced between segments, between regions and type of contracts.

We have also opened two engineering centers in Mexico and Nigeria in 2007. And although I didn't have time to describe what we are doing on the technological side, but I think we are very well-positioned on deepwater, the Arctic environment, floating LNG and other grass root projects.

So overall, a good start for 2008 and I think we have the strong balance sheet to support that growth. So thank you very much for attending the conference call today. Have a good day.

Kimberly Stewart - *Technip - VP IR*

Ladies and gentlemen, this concludes today's conference call and we would like to thank all of you for your participation. As a reminder, a replay of this call will be available on our website in about two hours. You are invited to contact Investor Relations team at Technip, should you have any questions or require additional information. Once again, thank you for your participation and please have a great rest of your day. Thank you. That's

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