FINAL TRANSCRIPT

Thomson StreetEvents℠

TEC.PA - Q1 2008 Technip Earnings Conference Call

Event Date/Time: May. 15. 2008 / 4:00AM ET

CORPORATE PARTICIPANTS

Thierry Pilenko
Technip - Chairman and CEO

Olivier Dubois
Technip - CFO

Bernard Di Tullio
Technip - COO

Kimberley Stewart
Technip - IR

Xavier d'Ouince
Technip - IR

Antoine d'Anjou
Technip - IR

CONFERENCE CALL PARTICIPANTS

Mick Pickup
Lehman Brothers - Analyst

Gordon Gray
JP Morgan - Analyst

Dave Thomas
Citigroup - Analyst

Alejandro Demichelis
Merrill Lynch - Analyst

Chris Walden
LCM Research - Analyst

Thomas Deitz
ABN AMRO - Analyst

Dominique Patry
Cheuvreux - Analyst

Jan Pstrokonski
Simmons & Co - Analyst

Jean Francome
Cheuvreux - Analyst

Jean-Luc Romain
CM-CIC Securities - Analyst

Paul Andriessen
Fortis Bank - Analyst

PRESENTATION

Operator

Good morning everyone and welcome to Technip's 2008 results conference call. (OPERATOR INSTRUCTIONS). I would now like to turn this call over to your host for today's conference call, Mr. Thierry Pilenko, Technip's Chairman and CEO. Please go ahead sir.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you and good morning ladies and gentlemen, and thank you for participating in Technip's conference call. I'm Thierry Pilenko Chairman and CEO of Technip. And with my are Olivier Dubois, our CFO, Bernard Di Tullio our President and COO, Kimberley Stewart, Xavier d'Ouince and Antoine d'Anjou from our Investors Relations Team.

Antoine will be taking over from Xavier in the next few days and Xavier will joining Technip's (inaudible) operations. I would like to thank Xavier for his support in Investor Relations for the past few years.

Before we comment on the 2008 first quarter results and following the traditional Q&A session, Kimberley will first remind you of the conference rules.

Kimberley Stewart - *Technip - IR*

Thank you Thierry. Good morning. I would like to remind participants that you can download the 2008 first quarter results press release and presentations from our website Technip.com. Statements in today's press release, as well as those made during this conference call which are both historical facts, are forward looking statements within the meaning that Private Securities Litigation Reform Act of 1995. Readers and listeners are strongly encouraged to refer to the disclaimers which are an integral part 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 now like to turn the call over to Olivier Dubois, CFO.

Olivier Dubois - *Technip - CFO*

Thank you Kimberley.

Turning to financial highlights. First, it's worth mentioning the material foreign exchange impact on the Group revenue due to the devaluation of the U.S. dollar against certain currencies such as British pound, Yen and others, which minus 10% on a sequential basis, and minus 15% on a year on year basis.

Foreign exchange had a lower impact on the Group operating income due to the lower profitability of dollar denominated contracts which are the Qatargas projects.

Total Group revenue was EUR1.8b in the first quarter 2008 compared to EUR1,774.7m for the same quarter 2007, up 2.4% or 8.5% excluding the foreign exchange rate translation.

EBITDA from recurring activities was EUR170.9m, versus EUR143.8m in the first quarter last year.

This is an increase of 18.8% or 23.1% excluding the foreign exchange rate translation, resulting in an EBITDA margin in the first quarter of 2008 for 9.4% and 8.01% for the same quarter 2007. A 130 basis point increase year on year, or 112 basis point excluding the foreign exchange impact.

Operating income from recurring activities was EUR136.9m versus EUR107.9m year on year, an improvement of 26.9%, or 30.4% excluding the foreign exchange translation.

This brings the operating margin to 7.5% for the first quarter 2008 compared to 6.1% the prior year. Therefore, an increase of 140 bp, or 126 bp excluding the foreign exchange impact. This performance is in line with our full year outlook.

Net income rose to 99 -- EUR89.9m in the first quarter 2008 by 32%. The growth EUR68.1m.

The earnings per share for the first quarter of 2008 was EUR0.85 versus EUR0.65, up 31.6% year on year.

Subsea performed very well with an operating margin of 17.9%. At EUR731m, Subsea order intake represents 45.9% of the Group's order intake.

Offshore and Onshore businesses are progressing as planned, with a combined operating margin of 3.4%, on track for the 3.8% full year target.

There were no additional charges on the large onshore contracts recorded during this quarter.

Backlog balancing is ongoing with Subsea representing 40.3% of Group backlog as of March 31.

Net cash was high, close to EUR1.6b.

Please note, that as already mentioned, as of January 1, 2008, Technip's financial statements are now reported according to Subsea, formerly SURF, Offshore formerly Offshore facilities, and Onshore, combining former Onshore Downstream and Industries business segment. Of course this is in addition to corporate, which remains unchanged. Pro forma figures are provided for 2007.

Taking a closer look at the first quarter, Group income statement. As I already mentioned revenues were up 2.4% year on year while EBITDA increased 18.8% and operating income from recurring activities rose 26.9%. There were no income from activity disposal in the first quarter 2008 compared to EUR14.6m in 2007. Therefore, operating income was EUR136.9m versus EUR122.5m for the first quarter 2008 and 2007 respectively, an increase of 11.8% year on year.

Financial charges were EUR8.3m down from EUR20.6m in 2007. The decrease of nearly 60%, which is essentially due to lower financial income recorded as revenue and included in the operating income EUR14.5m versus EUR27.3m in 2007.

Income of equity affiliates was over EUR0.2m in the first quarter of '08, compared to EUR1.4m one year ago. This brings profit before tax to EUR128.8m for the first quarter '08, versus EUR103.3m, up 24.7% year on year.

Income tax was EUR38.8m, or 30.1% effective rate for the first quarter 2008, and EUR26.8m, or 30.2% effective rate for the same quarter one year ago, excluding income from activity disposals. And the corresponding tax on income of EUR7.2m.

Minority interests were a loss of EUR0.1m compared to a loss of EUR1.2m in the first quarter 2007.

Proceeding to the business segments. Subsea revenue was down 5% from EUR576m to EUR549m for the first quarter '08. EBITDA was up 31% from EUR96m in the first quarter '07 compared to EUR126m year on year. These results give an EBITDA margin of 16.7% for the first quarter '07 and 23% for the same period in 2008. It includes an additional revenue of the [Nigerian] project not that material, between EUR3m and EUR4m.

Operating income from recurring activities rose 48% from EUR66m to EUR98m for the first quarters '07 and '08. Subsequently, the operating margin was 11.5% for the first quarter '07 and 17.9% for 2008.

Order intake was up 102% year on year from EUR361m to EUR731m.

Subsea backlog was nearly equal at EUR3,477m at year end '07, and EUR3,474m as of March 31, 2008.

Even so, first quarter revenue has been negatively impacted by currency exchange rate evolution.

Our outlook remains positive for Subsea, with a stable backlog despite foreign exchange adjustment, and good visibility which, as of March 31 backlog provided EUR1.9m in revenue for the next nine months of 2008, and EUR1.6b for 2009 through 2010.

Moving onto Offshore. Revenue was down 16% year on year from EUR223m to EUR187m. Operating income from recurring activities declined 17% from EUR12m to EUR10m for the first quarter '07 and '08 respectively.

Operating margin remained close to stable at 5.3% in '07 and 5.2% in '08 first quarter.

Order intake increased 77% in the first quarter '08 from EUR91m to EUR161m year on year.

Offshore backlog was up slightly at 4% from EUR551m as of December 31, 2007 to EUR571m as of March 31, 2008. It includes a lot of small engineering and service contracts with an average 5% to 6% operating margin.

Backlog provides good visibility through 2009.

Turning to the Onshore business segment. Revenues were up 11% for the first quarter '07 from EUR976m to EUR1,081m for the same period year on year, as expected, with the integration of the large projects which are currently going according to plan.

Operating income from recurring activities increased by 4% [sic. see presentation] from EUR32m in '07 to EUR33m in '08 for the quarter.

Operating margin declined slightly from 3.3% to 3.1% in the first quarter '08. No major changes occurred in the main project status compared with the situation prevailing three months ago.

Approximately 50% of the revenue has no gross margin objectives as these projects are breakeven or slightly negative. This is encouraging because it means that the actual profitability of the other and younger projects is close to 5% excluding financial income.

Order intake decreased 32% from EUR1,029m in the first quarter '07 compared to EUR700m in '08.

Onshore backlog reduced 15% from EUR5,361m at year end '07 to EUR4,580m at the first quarter end. It was negatively impacted by foreign exchange since a lot of Onshore contracts are denominated in dollars.

Now looking at the balance sheet for March 31, and year end '07. No material changes were noted. Cash and cash equivalent was EUR2,334.8m, versus EUR2,401.5m in December 31, 2007. This results in total assets of EUR8,028.6m, a slight decrease from EUR8,099.3m at year end.

Shareholder equity, including minority interest, was EUR2,278.8m up a bit from EUR2,196.8m at year end before the dividend payment on May 13, 2008.

Financial debt was EUR743.8m at the end of March 2008 compared to EUR697.2m at the end of December '07.

Turning to the net cash flow statement. Net cash at December 31, 2007 was EUR1.7m.

Operating cash flow was EUR123m for the first quarter, up 53% compared to the first quarter '07.

CapEx for this first quarter was EUR68m. The first quarter is traditionally lower in terms of CapEx compared with the three following ones. Working capital declined by EUR65m in line with project execution.

Debt repayment was EUR5m and others were minus EUR100m, mainly foreign exchange translation impact.

At the end of the first quarter 2008 our net cash finance remains strong at EUR1,591m.

Project milestone payments amounted to EUR1,593m as of March 31, 2008 versus EUR1,580m as of December 31, 2007.

Finally taking a closer look at Subsea return on capital employed, on an annualized basis for the first quarter 2008 it was 18%, in line with 2007 performance, and well above the 7% which was achieved in 2006. Thank you for your attention, and I will turn the conference call to Thierry.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you Olivier. I would now like to share with you some of the first quarter operational highlights. As Olivier mentioned, Subsea revenues were down in the first quarter due to vessel utilization rate of only 71% as several vessels were in dry dock, particularly the Alliance. The Deep Blue was in dry dock most of January while we [The Olivia] was unavailable because of its life extension program.

However, Subsea operating margin was result in good project execution across all regions. For example, the first flexible flowlines were installed on the Agbami field offshore Nigeria, and in India the MA-D6 project which is nearing completion.

In addition to that I am pleased to announce that we have signed a contract with Petrobras for a new built pipelay vessel, which is 50% owner by Technip and which is going to be dedicated to the Brazilian deep water market for at least the next four years.

We had also several new field development contracts in the first quarter of 2008. The White Rose oil field, the North Amethyst satellite in Canada for Husky Energy, and Don West and South West fields in the North Sea for Petrofac.

The backlog portfolio is balanced with only two large projects. PazFlor, which is in the engineering phase and Agbami in the installation phase, as well as of course, many other medium and small sized projects in all regions.

Now moving onto Offshore, we had good progress on the Perdido SPAR fabrication for Shell. The hull sail away from the Pori yard in Finland is planned for the end of May 2008, and it's going to sail away to the Gulf of Mexico.

The Akpo FPSO in Nigeria, the module interconnection was completed during this quarter and the ship is expected to sail away in early June of this year.

We are also diversifying the Pori yard production in Finland to mitigate low activity in 2008 back to the construction, the fabrication of the Perdido SPAR, and we expect that activity will pick up again in 2009 as we anticipate additional stock orders.

With regard to the mooring shackles issue on the Tahiti Spar the shackles replacement has been completed. While on the other Spar project, the replacement of shackles continues to progress.

In the Offshore business numerous small contracts were awarded during this quarter for a total of EUR161m. And our backlog for the Offshore business is stable.

Turning now to Onshore. In Yemen the LNG project is progressing well and we have installed two key elements. The main cryogenic heat exchanger and we have energized the main electrical substation, so good progress on this project.

Same thing on the Khursaniyah gas plant in Saudi Arabia where some units have already been handed over to the customer.

In Qatar, following an agreement signed on QatarGas in January of this year on which we have extensively communicated, we have signed an agreement on RasGas III and AKG2 in March. Discussions on QatarGas III and IV, the last two trains, have started. So Qatar LNG and gas treatment projects execution are pretty much in line with revised schedules.

Other refining and petrochemical projects are progressing as planned.

So our ability to rebalancing our portfolio is seen in the new contracts awarded in the first quarter of 2008. For example two biodiesel contracts; one in Malaysia and one in Singapore which confirms Technip leadership in biofuels.

EPCM contract for crude oil distillation unit in Greece at the Corinth refinery. And a lump sum turnkey design FEED awarded for the first phase of the Shtokman gas project in Russia which is going to be a very large contract project for the future.

So overall backlog have an increase in service contract activity.

Now taking a closer look at Technip's backlog with an analysis of business segment. It shows that balancing of the portfolio is progressing well as 30% of the total Group backlog has increased from 20% at the end of 2006 to 40% at the end of Q1 '08. In addition, Technip's market split continues to be fairly well balanced at the end of the quarter.

Moving onto the backlog regional split. At the end of March 2007 with a backlog of about EUR9.8b, Technip was heavily weighted in the Middle East with about 49% of the total backlog. While at the end of March 2008 the Middle East accounted for only 30% and the geographical split of the backlog is more balanced with, for example, Africa 16%, Americas at 23%, Asia Pacific stable at 11%, while Europe, Russia and Central Asia doubled.

If you take a look at our backlog classified by contract dates rather than by segment, we can see that 45% of our Onshore backlog is from the period 2007/2008 compared to 68% and 78% respectively in the Offshore and Subsea segments. And obviously the most recent awards have given us opportunities to adjust that with inflation.

Now let me give you a quick overview of the market. I don't think anyone will be surprised if I say that we have an extended visibility driven by high commodity prices.

Onshore, the demand for additional refining and petrochemical products capacity will drive the start up of many gas plants, particularly in the Middle East. However, our customers are trying to limit cost increase, which affect the entire chain from raw material to construction. As a consequence, we have seen some delays in the decision process in some of these mega projects.

LNG demand is also increasing with an interesting decoupling between the U.S. markets where energy is not competitive today and Asia where consumers are securing long term energy supplies at much higher prices. As a result, we anticipate that many LNG projects that are at the feasibility stage will go ahead.

Offshore, we can anticipate that the large West African projects will move forward, but we do expect that the competition for key deposit construction resources will intensify as the Gulf of Mexico and of course Brazil will start developing their recent finds.

This both for the Subsea business, but also for platform, [grass roots plan] or fabrication.

In addition, there are a number of key companies which are considering putting energy as a possible solution to help developments of isolated or remote gas fields. These technically challenging solutions are becoming economically visible and represent good opportunities for Technip.

So in this environment we can expect that the cost of the entire supply chain continues to be unpredictable and are likely to increase. It is therefore of the utmost importance to be selective with the opportunities, and to continue balancing our portfolio in terms of size, geographical spread and production scale.

With that ladies and gentlemen, I will hand you back to Olivier Dubois who will give you an update on Technip's 2007-2010 Investment Program and the outlook for 2008. Olivier.

Olivier Dubois - *Technip - CFO*

Thank you Thierry. Starting with the update on our investment program, I remind you that last year the CapEx amounted to EUR262m. We estimate now that for 2008 the CapEx will be between EUR400m and EUR450m. Our 2009 through 2010 CapEx forecast is between EUR600m and EUR700m.

Over the 2007 through 2010 period, global CapEx program increased due to around EUR200m, the cost inflation and scope additions, and roughly EUR100m in the maintenance additions.

Our 15% ROCE target remained achievable, thanks to improved profitability in Subsea.

Lastly our outlook for 2008. First, in terms of cash flow working capital we estimate that it will be down between and EUR400m and EUR600m this year due to first, the decrease of large project contribution, partially offset by new contracts. The EUR125m dividend payment on May 13, and between EUR400m and EUR450m in estimated CapEx.

In terms of revenue, the 2008 revenue outlook which was announced on February 21 was based on the US dollar/euro exchange rate of 1.40 for the full year. From the second through to fourth quarter 2008, we have based our revised outlook on the US dollar/euro exchange rate of 1.60.

Subsea, with a new outlook should remain at EUR2.7b, a 10% increase year on year.

Offshore and Onshore revenues goes from EUR5.3b to EUR4.7b to EUR4.9b resulting in the Group revenue, revised down to EUR7.4b to EUR7.6b. This revision is due to both foreign exchange translation impact and some delays in contractuals.

Operating margin outlook for the full year '08 is an increase in Subsea from below 15% to below 16%. Onshore and Offshore combined operating margin target is maintained at 3.8%, therefore the Group operating margin increases to 7.6%.

This concludes our comments and we are now ready to answer the questions you may have. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen at this time we will begin the question and answer session. (OPERATOR INSTRUCTIONS). The first question comes from Mr. Mick Pickup from Lehman Brothers. Sir, please go ahead. Please go ahead Mr. Pickup.

Mick Pickup - *Lehman Brothers - Analyst*

Hi. Mick Pickup here. Obviously my accent is no good on the recorded distance. A couple of things if I may. Firstly Olivier, I know historically you've given us a sensitivity to a 10% movement. Now you say the movement in EBIT is a combination of two things, the FX and the delay of projects. Could you just break that down how much you've got? I think historically you were on a 10% movement with a 2% to 3% revaluation in EBIT.

And secondly, you mentioned the projects which are new projects generating a 5% margin. Can you just breakdown the revenues in that Onshore division between those which are definitely 0% margin and those which are actually generating margins please?

Olivier Dubois - *Technip - CFO*

First the outlook mentioned for the full year was not in terms of EBIT. When I say that, it's both the impact on the foreign exchange transition and some delays in contractual work. It was for the Group revenue. We estimate that roughly for the Offshore and Onshore business segment, the ForEx impact is in the range of EUR400m and that delays in contract awards could have an impact in the range of EUR200m in the Group revenue.

Mick Pickup - *Lehman Brothers - Analyst*

Okay, but then there clearly is an EBIT impact because if I do EUR8b times 7.3 that is more than 7.6%, 7.4 times 7.6. And if I subtract away the improvement in Subsea it says your EBIT is down 6% to 8% from the line.

Olivier Dubois - *Technip - CFO*

No, if you compute the operating income at 7.3% and the revenue at 8 compared with margins on 7.6% and the revenue revised down was at 7.6, you see that there is no material change in the absolute number of operating income between the two guidance.

Mick Pickup - *Lehman Brothers - Analyst*

But Subsea has got better.

Olivier Dubois - *Technip - CFO*

Yes, but since we have keep and change the 3.8% operating margin we show for Offshore and Onshore and the longer revenue, it has an impact on the operating income of the two business segments which is offset by the increase of the operating income in the Subsea segment.

Mick Pickup - *Lehman Brothers - Analyst*

Okay. Second question.

Olivier Dubois - *Technip - CFO*

Second question, you mentioned the share on the contact. I mentioned that 50% of the revenue in joint force segment had no gross margin associated.

Mick Pickup - *Lehman Brothers - Analyst*

Okay.

Olivier Dubois - *Technip - CFO*

It includes some of the Middle East and Other Region contracts for which we have recorded some charges in the last quarter. Since these charges where Subsea equal to the loss expected at completion, that means that until the completion of the project we recognize no gross margin on these projects. So includes some of the Qatar project. It includes the Saudi project. It includes some of the South East Asia and North American projects which were the projects that we passed last year.

Mick Pickup - *Lehman Brothers - Analyst*

Okay, thank you Olivier.

Operator

The next question is from Mr. Gordon Gray from JP Morgan. Go ahead sir with your question.

Gordon Gray - *JP Morgan - Analyst*

Thanks. I wonder given that your guidance for the sales margin now has gone up to 16% it's in line with your previous guidance for 2010, whether you see any revision to the longer term targets at this stage?

Thierry Pilenko - *Technip - Chairman and CEO*

I think it is way too early to talk about 2010. We did see increases this year we said that, but we have not predicted in our forecast in mid last year. And I think probably by the end of the first quarter of this year we will be able to have a better picture about the longer term. But obviously this is going in the right direction.

Gordon Gray - *JP Morgan - Analyst*

Right thanks.

Operator

the next question from Mr. Dave Thomas from Citigroup. Sir please go ahead.

Dave Thomas - *Citigroup - Analyst*

Yes good morning, I have got three questions please. Firstly, could you just advise us what the end of the first quarter the euro value was remaining in your Onshore backlog for the Qatar and LNG and AKG II contracts.

Secondly, can you just say what the foreign exchange impact was on your backlog at the end of the first quarter? Presumably there is a mark to market effect there.

Thirdly, could you perhaps give us some guidance on the DD&A that we should expecting going forward on your revised CapEx plan? That's for 2009 and 2010 Thank you.

Olivier Dubois - *Technip - CFO*

First question, in terms of currency exchange rate, the backlog agenda of March has been revised based on an exchange rate between dollar and euro of 1.50.

Concerning the change impact on the backlog, it has been estimated for at the end of March, at the Group level at EUR330m.

Dave Thomas - *Citigroup - Analyst*

Yes. No that's fine. There's two more questions. I hope you got those.

Kimberley Stewart - *Technip - IR*

It's just we've got some background interference.

Dave Thomas - *Citigroup - Analyst*

Sorry. The second question was just to provide information on what the euro value was in your onshore backlog for Qatar LNG contracts and AKG II, how that's moved across the quarter? And the third question was DD&A guidance, depreciation guidance for '09 and '10, based on your revised CapEx expectations.

Olivier Dubois - *Technip - CFO*

I am sure your first question since the Qatar project are part of the Onshore downstream, and I told you that we have updated the backlog at the end of March based on the dollar euro exchange rate of 1.50.

Dave Thomas - *Citigroup - Analyst*

I'm trying to find out the absolute number for the amount of the backlog relating to those contracts, not the ForEx impact.

Olivier Dubois - *Technip - CFO*

Okay. Be a moment. The four gas LNG project in Qatar the weight in the Onshore backlog at the end of March is 24%.

Dave Thomas - *Citigroup - Analyst*

Okay, thank you for that.

Olivier Dubois - *Technip - CFO*

In terms of depreciation, in fact we estimate that the depreciation in 2008 and 2010 should be respectively let's say EUR150m and EUR160m.

Dave Thomas - *Citigroup - Analyst*

That does appear a bit low against what your depreciation charges have been in 2007. Is there any reason for that?

Olivier Dubois - *Technip - CFO*

Yes, the first reason is that you have the currency exchange rate impact because it has an impact on the assets which are today in dollars or in British pounds, which is what most of our fleet of vessels. So it has an overall impact of the fleet of vessels. It has a solid impact on the coming CapEx and I remind you that the vessels which are the main part of the new CapEx program are depreciated over 25 years.

Dave Thomas - *Citigroup - Analyst*

Okay, thanks for your help.

Operator

The next question is from Mr. Alejandro Demichelis from Merrill Lynch. Sir, please go ahead with your question.

Alejandro Demichelis - *Merrill Lynch - Analyst*

Yes, good morning gentlemen. Just one quick question. You have been telling us how you rebalance your backlog but you also told us the new contract that you're pursuing in the Middle East, particularly on the grass roots refineries. So, going forward, would you expect the mix of the backlog to remain the same or should we see further growth in the Onshore division in terms of backlog?

Thierry Pilenko - *Technip - Chairman and CEO*

Well, I think it's very hard to predict what the backlog is going to be because it depends when contracts are being awarded. But what I can tell you is that in the fleet, the way we anticipate that some of the grass root plans are going to be rewarded is going to be in multiple packages. And the contractual schemes, although they have not been finalized here, will be anywhere from a lump sum turnkey to reimbursable, convertible to lump sum turnkey at some stage. So, it's very hard to predict which package we're going to have, with which customer, and under which contractual scheme.

Now we do have in our target a number of projects, which are fully reimbursable of customers. And also, a number of projects which are long term turnkey and projects for which we have sought now partnerships and some alignment with construction companies. Just give you an example, this is not in the release, but Olympic [Tristar] is one of these projects for example where the work will be in lump sum turnkey. Now the bid is still being developed.

Alejandro Demichelis - *Merrill Lynch - Analyst*

But in terms of the Middle East large projects, you're still willing to take a lump sum turnkey contract on board?

Thierry Pilenko - *Technip - Chairman and CEO*

If we find the right conditions, yes. But certainly not as large as what we have done in the past several years ago, with many projects in the same places where we had subsequent issues and bottlenecks because of the projects being acted together and such resources issues. So, we maybe taking one or two but it is going to be a different consortium or different alignment for such CapEx.

Alejandro Demichelis - *Merrill Lynch - Analyst*

Okay, thank you.

Operator

Our next question is from Mr. Chris Walden from LCM Research. Sir, please go ahead.

Chris Walden - *LCM Research - Analyst*

Thank you. Three real quick questions. One housekeeping and two more general questions. On the housekeeping, you're working cap change was negative by about 65. Could you break that down for us what portion of that was related to client related payments and what was related to, let's say, accounts payable and accounts receivable?

The second question is, Mr. Pilenko, when you and I met a few weeks ago we were talking about how the margin environment should be much higher than it is, given the types of resources that companies like Technip are committing to the market.

Now, if we look at the Middle East, I think it's still true to say that most of the clients are going to be bidding on an LSTK basis and your policy is to be very selective on that, to make sure that you can get an adequate return. I guess my question is are you seeing low cost suppliers, maybe from Asia, coming in and bidding more aggressively on those types of contracts, to try and pick up some of the market share that Technip is abandoning?

And then, the third, there's a lot of comment in the markets on, let's say food crisis in Asia and riots and what not and, the UN is starting to make comments about diversion of agricultural crops to biodiesel type projects is responsible, in part, for this. I think Technip is a member of the UN Compact and I was wondering if there's some sort of new position that you're taking on your biodiesel projects going forward. Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Yes, I'll let Olivier answer the question on working capital difference and I will try to answer the other two questions.

Olivier Dubois - *Technip - CFO*

Yes, there's a decline in the working capital. It's actually in line with the project execution. You know that on some major projects we had some good payment conditions. That means that we are today in advance in terms of payment compared with the physical progress on these projects.

So, today, we are quarter after quarter, progressively aligning the payment progress with the fiscal progress, since the milestone payment remains stable between the December 31 and the March 31. You can assume that the decline in the working capital is mainly due to payments to suppliers and subcontractors.

Chris Walden - *LCM Research - Analyst*

Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. So the other three questions, one was about LSTK in the Middle East. Yes, we do expect that the Middle East, for a large extent, is going to continue to keep the tender under LSTK contracts. However, you have seen that our portfolio in the Middle East is strengthening today because we may be leaving some of these high volume projects to our competitors.

Now, what the selection criteria we have for the projects we will be bidding are where we are associated with -- closely associated with the [feed] and the cost estimates. Which is the case for example for the project in Saudi Arabia refineries, Saudi Arabia, which is going to be bidding many different packages. We're going to negotiate for contracts with converted lump sum turnkey and, in general we're going to be targeting with the smaller projects in the Middle East.

Now, have we seen Asian contractors coming into the Middle East? The answer is yes. In particular Korean construction. They may be bidding frantically on construction. If they want to have these projects and be aggressive, they can have then. Okay.

Now, as far as your comments about biodiesel, I think you're absolutely right. There is a lot of discussion, at least, it's not controversy, being raised about whether biodiesel is affecting the global food supply and, I think we have just started to see the beginning of the discussion.

Nevertheless, there are a number of projects in which -- from which we have developed expertise and we are not here to take a position about whether biodiesel is a good thing or bad thing. If our customers want to build biodiesel plants, we will help them. And many of these projects, by the way, are in contractual form, which are EPCM. They are small projects in our plants. Very small -- nothing. It is a maximum of a few $100m but not here. I mean some of them are less than $100m and we are generally involved in engineering plus procurement and construction management. So we will continue to do that.

Now, I don't think this is going to be a major expansion of our business. It's just one of the processes that we continue to offer to our customers. Does that answer your question?

Chris Walden - *LCM Research - Analyst*

It does. Thank you very much.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you.

Operator

The next question is from Mr. Thomas Deitz from ABN AMRO. Sir, please go ahead with your question.

Thomas Deitz - *ABN AMRO - Analyst*

Yes, gentlemen I have a few questions if I may. The first is regarding the guidance and the cash flow and working capital comments. I didn't quite understand what that meant. Could you go through that again and then tell us what you expect in terms of cash flow being down on working capital, how that evolved please?

The second question is for the offshore division. You talked about your expectations of having more SPAR demand in 2009. Could you please give us an indication on what projects you're in particular, thinking about?

And then, the third question, I think you mentioned it, Olivier, but I didn't quite get the number. What was the finance income that was contingent in -- as revenues in the quarter? Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Olivier will answer the first question, but let me answer, while Olivier is looking at some numbers here, let me answer the question on the Offshore construction.

We are about to complete the Perdido SPAR, which is the fourteenth SPAR. Most of the SPARS as you probably know have been installed in the Gulf of Mexico. The SPARS are being proven as a very cost effective and audacious effective solution for the deep water Gulf of Mexico, particularly, very stormy periods and in the hurricanes. So, because they have better stability than other structures. So the -- just for your information, the SPAR that is about to be installed by Shell on Perdido is going to be the deepest SPAR and the deepest water SPAR.

And we do know that there are a large number of developments that are being discussed by the typical deep water operators in the Gulf of Mexico. And some of them, not all of them, but some of them will -- most of these either SPAR and technology.

Now, we may also see, but that's for the longer term, opportunities to position the SPAR in Brazil, which is an area where we have not yet thought about but that could well happen, as the deep water develops further in Brazil.

So now I'll turn the floor to Olivier for the questions on guidance.

Olivier Dubois - *Technip - CFO*

And so, in your last question, in terms of financial income, I mentioned earlier that for the Group, during the first quarter, the financial income included in the revenue was 14.5, to be compared to 27.3.

For the Onshore business segment, which is the most material one in terms of financial income, it was 8.4 to be compared to 18.4 last year.

In terms of cash flow for the full year, since we believe that based on our estimate today, the cash flow from operations will finance, more or less, dividend and the CapEx program. Cash spending will be many, due to the decline of the working capital, which is fully consistent with the progress on our main contracts.

Thomas Deitz - *ABN AMRO - Analyst*

So that means that overall cash generation will be negative? But are you saying here, cash flow to working capital ratio you give on page 23, down EUR400m to EUR600m? That's what I don't understand. I mean cash flow for the year would not be down EUR400m to EUR600m.

Olivier Dubois - *Technip - CFO*

When you look at the cash flow generation for the first quarter, you're seeing that we enjoy EUR123m of cash flow. If you extrapolate this figure on the full year basis, you will see that it should finance a dividend payment and CapEx. That's the reason we believe that the cash evolution, which we believe could be negative between EUR400m and EUR600m, will mainly depend on the evolution of the working capital.

Thomas Deitz - *ABN AMRO - Analyst*

All right, thank you.

Operator

The next question is from Mrs. Dominique Patry from Cheuvreux. Please go ahead, Madame.

Dominique Patry - *Cheuvreux - Analyst*

Yes, good morning. I'd just like to come back on the new 2008 guidance. If I take the 10% increase on the Subsea sales and if I multiply by the lower part of your guidance, which is 15%, and, if I take into account the fact that you have maintained the Onshore and Offshore margin at 3.8%, I still only come to the conclusion that you would generate an overall EBIT margin of 8%. What I am missing in this split, 7.6% margin that you are seeking for the Group as a whole?

Olivier Dubois - *Technip - CFO*

You are missing the impact on the corporate segment. We had, for the first quarter, a negative contribution of the corporate segment of 4.5% -- EUR4.5m, excuse me. We expect this amount should be higher in the second half of the year, after the award of stock options and performance] shares, following the approval of the Shareholders Meeting of last week.

As you know it has an impact according to IFRS. This impact will be recorded in the accounts of the second half and we have estimated that on the full year basis, the corporate segment could be negative, after stock options and performance shares charges, of roughly EUR40m, which makes the difference between the 8% and 7.6%.

Dominique Patry - *Cheuvreux - Analyst*

Okay. Thank you. Then, I have a follow up question on the Subsea backlog. Given the fact that when we look at the scheduling of the Subsea backlog, we see a sharp increase for the activity after 2009 and, especially, for the activity after 2010. So, I was wondering is it a strategy of Technip to position on maybe more long term Subsea contracts, or is it just a reflection of the evolution of the market?

Thierry Pilenko - *Technip - Chairman and CEO*

I wouldn't call it a strategy. I think the strategy position advance portfolio with some large long term contracts and, on this we try to be positioned as early as we can and over smaller contracts. It just happened that, particularly after the past award we have seen, which are very significant awards, we have seen our portfolio expand well into 2009 and 2010.

We also know that some customers are securing now, as basically the [office] is working at full capacity for 2008 and is already pretty much full for part of 2009. I think our customers are securing resources for development projects into 2010. That's the case in the Gulf of Mexico. That's the case in West Africa.

But you know we have a broad mix of projects and we also have a number of projects which are very short term, two or three months, like what we are typically doing in the North Sea. Or, given what we have done in India where we have executed very, very rapidly the installation of the MAB6.

So, it is the strategy of keeping advance portfolio. It's not necessarily a strategy to focus on -- only on longer term projects because I do believe there is -- there are opportunities to be grabbed as our customers have short term needs. So you don't necessarily want to put all your eggs in the same basket.

Dominique Patry - *Cheuvreux - Analyst*

Thank you. And then I have a final question related to the Subsea margin. You have mentioned that it was achieved despite relatively low utilization of your fleet at only 70% in Q1. Could you maybe give us a little bit more guidance on to the impact of this slow utilization on your EBIT margin in Q1? And to which level you expect the utilization of the fleet for the remaining nine months?

Thierry Pilenko - *Technip - Chairman and CEO*

Well, I think the impact -- I'll let Olivier answer that, but obviously the utilization will go back up after we have finished particularly these dry docks and so forth. And we should be back to the 80 plus for the rest of the year -- of the impact of the year. This is not something that we measure out specifically you know, impact of --

The quality of the margin is coming from the fact that there was very good execution of projects throughout the second half of 2007 and into the first quarter of 2008. So that's basically a continuation of the good performance in projects that started in 2007.

Dominique Patry - *Cheuvreux - Analyst*

So, maybe a different way to ask the question on the Subsea margin, given the length of your backlog and given the seasonality that can affect the Subsea activity, is there anything specific to keep in mind when we model our quarterly EBIT margin for the Subsea division? For the rest of 2008.

Thierry Pilenko - *Technip - Chairman and CEO*

You know, I would not try to do a model on a quarterly basis really because we've given you some guidance and the quality of the results depends highly on the quality of the execution and, on what happens once the projects are finished, whether the system that you have installed has their full integrity or not.

If they have their full integrity, after a while, then you can recognize all the contingencies that you have put on a different project. If the project has difficulties, for example, I don't know a leak in a pipe, for example, then you have to use those contingencies to actually repair the projects.

So it's really on a project by project basis and you know -- and looking at the model on a quarterly basis may not be completely meaningful. But I think, given our current performance, given what we see of our fleet and, barring any incidents, which are obviously things that aren't predictable, we think we're going to be able to make more than 16% margin.

Dominique Patry - *Cheuvreux - Analyst*

Okay, thank you very much.

Thierry Pilenko - *Technip - Chairman and CEO*

That's all I can say. I can't give you more detail about how to model the quarter.

Dominique Patry - *Cheuvreux - Analyst*

Maybe one final on this? If I understand you fully, you would say that project execution is more meaningful than seasonality effects?

Thierry Pilenko - *Technip - Chairman and CEO*

It is and, it's more meaningful than pricing. I said that several times. It's project execution. As we are modernizing sometimes a fleet of vessels, some of them not even being ours, if you do well with project execution, you have a much better chance to increase your profit.

Dominique Patry - *Cheuvreux - Analyst*

Thank you very much.

Operator

The next question is from Mr. Jan Pstrokonski from Simmons. Sir, please go ahead with your question.

Jan Pstrokonski - *Simmons & Co - Analyst*

Yes, hello. Jan Pstrokonski from Simmons & Company. Just one question about the SURF segment. Could you just outline what sort of contribution to the top line you get from pipe manufacturing there and what kind of margins you get? Thanks.

Thierry Pilenko - *Technip - Chairman and CEO*

No. We do not give our margins for our pipe contribution and -- because it is very competitive and confidential information.

Jan Pstrokonski - *Simmons & Co - Analyst*

Right, so can we just have a proportion of revenue?

Thierry Pilenko - *Technip - Chairman and CEO*

It's the same. We don't do it on the revenue because some revenue is actually part of the project. So we prefer not to give that number, because it's very complicated information and it's an area where the competition is fierce but where a model which is vertically integrated, like our model, is probably providing some of the best margins of the industries.

Jan Pstrokonski - *Simmons & Co - Analyst*

Okay, thank you.

Operator

The next question is from Mr. Jean [Francome] from Cheuvreux. Sir, please go ahead with your question.

Jean Francome - *Cheuvreux - Analyst*

Yes, good morning. I have one question. Looking at the scaling of the backlog, you have EUR4.9b in aim for the remainder of the year, which is basically EUR600m above last year level at the end of Q1. And last year you generated a revenue of close to EUR7.9b. And, as Q1 '08 and Q1 '07 revenues are pretty much similar, I don't really understand how you can end up with a guidance in terms of top line between EUR7.4b to EUR7.6b for this year.

And maybe you could clarify one point. I thought that -- I was assuming previously that the backlog scheduling expressed in Euro was based on the exchange rate at the end of the quarter, which was 1.58 on March 31st.

Olivier Dubois - *Technip - CFO*

No. I mentioned that the exchange rate at the end of March was the total of the backlog rating was 1.50.

Jean Francome - *Cheuvreux - Analyst*

Okay.

Olivier Dubois - *Technip - CFO*

Which will -- which was, in fact, the average of the first quarter but we have updated the guidance for the full year on an exchange rate of 1.6, which was particularly the spot rate at the end of the quarter.

Jean Francome - *Cheuvreux - Analyst*

Okay. So -- but you -- despite the fact that you have EUR600m of additional revenues compared to last year, this is completely and more than offset by the weakening of the U.S. dollar?

Olivier Dubois - *Technip - CFO*

Yes, because we don't expect a major contribution in terms of revenue on the new project to be awarded until now and the end of the year.

Thierry Pilenko - *Technip - Chairman and CEO*

And we have a number of projects on the Onshore side that are to finish this summer. So less contribution from these projects in the second half in terms of revenue, but many of these projects that Olivier mentioned were low margin projects.

Jean Francome - *Cheuvreux - Analyst*

Okay, just an extra question then on the pledged projects. You mentioned, ongoing, especially with Chevron, and that the arbitration cannot be excluded. Could you just elaborate this point and maybe what is your stake from the financial perspective and what could be an indicative outcome of those negotiations and maybe the arbitration?

Thierry Pilenko - *Technip - Chairman and CEO*

Okay, well I mean we cannot go into too many details Stephen. This is I would say a normal procedure at the end of a project where we have had an incident.

And, as far as we are concerned we have the project despite of these mooring shackles and more have supplied mooring shackles that were changed after the first ones were found to be -- to have metal fatigue problem. And as far as the costs are concerned, it should be covered by our insurance.

Jean Francome - *Cheuvreux - Analyst*

Okay, so I guess that 2008 guidance on the Subsea does include even a potential negative outcome of the arbitration?

Thierry Pilenko - *Technip - Chairman and CEO*

The shackles are not related to the Subsea business --

Jean Francome - *Cheuvreux - Analyst*

Okay

Thierry Pilenko - *Technip - Chairman and CEO*

Okay? So when we build a SPAR, or a platform, this is part of our Offshore business.

Jean Francome - *Cheuvreux - Analyst*

Yes.

Thierry Pilenko - *Technip - Chairman and CEO*

Offshore facilities and therefore, the impact of the projects relating to this activity, come in the Offshore segment.

Jean Francome - *Cheuvreux - Analyst*

Okay. Thank you.

Operator

Our next question is from Mr. Jean-Luc Romain from CM-CIC Securities.

Jean-Luc Romain - *CM-CIC Securities - Analyst*

Good morning guys. Two questions actually. One relating to the construction in Qatar. I would like to make sure I understand correctly the construction contractors on CIC are contracted directly by your changing with [Sheba] or are they working for Qatar Petroleum?

Thierry Pilenko - *Technip - Chairman and CEO*

I can't answer that. CIC and all the contractors because they also have all contractors in Qatar, are contracted by the (inaudible)

Jean-Luc Romain - *CM-CIC Securities - Analyst*

Okay, thanks.

Thierry Pilenko - *Technip - Chairman and CEO*

They are not contracted directly by the customer.

Jean-Luc Romain - *CM-CIC Securities - Analyst*

Okay. Another question relating to the contracts you announced today on the maintenance for mining a projects. Could you give an idea of these contracts and about the potential of this new market?

Thierry Pilenko - *Technip - Chairman and CEO*

No. I cannot give you the size of this contract but I -- it's a technology first. So it is a contract for which we are going to develop with the customer some very innovative ideas to leverage our Subsea technologies into what could become one day, an important business. But, it's a very early stage. But it's really leveraging the activities of our Subsea teams. It's a customer that has an ambitious program to do subsea mining.

Jean-Luc Romain - *CM-CIC Securities - Analyst*

Okay, thank you.

Operator

Our next question is from Mr. Andriessen from Fortis. Sir, please go ahead with your question.

Paul Andriessen - *Fortis Bank - Analyst*

Good morning gentlemen. Maybe just a few questions. Could you tell me whether in Subsea there was an unusually high level of recognition of contingencies from projects at the final stage?

The second question, on the financial charges, they look rather low. Could you perhaps explain?

The third question, given that a lot of new energy liquefaction jobs are going to come in Australia you don't want to work there on a lump sum turnkey contract basis. How are you looking at your position there?

Are you prepared with regards to Russia, to take on lump sum turnkey construction contracts on Shtokman?

And, last question, could you elaborate on your plans -- more details on your plans on floating LNG? Do you have a detailed design? Are you marketing that design and do you have specific fields in mind?

Thierry Pilenko - *Technip - Chairman and CEO*

All right. So, lots of questions. There are two financial questions which Olivier may answer and, three questions on the business. So let me start with the LNG production in Australia, we did say and we continue to state that we are not, we are not going to take construction risk in Australia.

So, we are effectively being invited by some of our customers to look at LNG plans. We're going to do deep sea or deep sea CM. But we are talking about costless or lump sum for the easy part but not on the construction side. So, we made it clear to our customers that this was not a risk that we are really planning to take.

By the way, on the current LNG projects in Australia the contractors that are involved do that on a cost price basis.

Next question is about Shtokman. Shtokman, we are involved as we discussed in the early stage of the single FEED, in particular for the LNG. I don't see how we could be taking a lump sum turnkey contract in Russia at this stage. So I don't think this is the type of construction scheme that we will be encouraging with our customers. Now, there might be some aspects that we could take lump sum, such as, engineering and procurement. Okay?

Now, in terms of floating LNG, our strategy is not to market a standard design. Our strategy is to make sure that we work with customers that understand that it is very important to have true integrity from the Subsea -- the platform, or the factor, the profits system and the uptake and that requires a lot of very detailed work.

So we are positioning ourselves with customers that we believe are going to be leaders and we are in a communication for these type of opportunities. So, some people may believe it's going to be a standard design. We are of the opinion that most likely it's going to be quite specific, even if the plan could be to have more than one floater being built at a time.

Paul Andriessen - *Fortis Bank - Analyst*

But you are already in pre-qualification stages on specific projects

---

Thierry Pilenko - *Technip - Chairman and CEO*

We are on the pre-qualification stage with one customer --

Paul Andriessen - *Fortis Bank - Analyst*

Okay

Thierry Pilenko - *Technip - Chairman and CEO*

He has a specific project in mind

Paul Andriessen - *Fortis Bank - Analyst*

Okay

Thierry Pilenko - *Technip - Chairman and CEO*

The other question.

Olivier Dubois - *Technip - CFO*

Yes, answering the two financial questions, the first one is that during the first quarter, there is no exceptional impact on the release of contingencies or exceptional revenue, which could explain the good performance in the Subsea business. I would say it's business as usual. As you know, depending on the progress on the projects we can have some contingency relief. On other projects, we make some provisions, but it's not during this quarter.

Concerning the difference on the financial charges, in fact, there are two main reasons. The first one is the impact on the EAS 21, 32, and 39, which is EUR5m lower than it was last year in the same period.

The second reason is that we had recognized less financial income in the revenue than last year. I mentioned that at the Group level it was EUR14.5m compared to EUR27.3m last year. But on the contrary, we have as you know decrease of the interest rates, especially on the cash which is invested in U.S. dollars.

To give you an order of magnitude, last year for the first quarter, the average interest rate for the dollar was at 5.3%. For the same period this year it was in the range of 3.3%. So since part of our cash is today invested in U.S. dollars, the decrease on interest rates has had a negative impact on our financial income. But the two main reasons are the exchange impact and the transfer between revenue and financial income.

Paul Andriessen - *Fortis Bank - Analyst*

Okay. Thank you.

Kimberley Stewart - *Technip - 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 should you have any questions or require additional information. Once again, thank you for your participation and please enjoy the rest of your day.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you very much.

Operator

Ladies and gentlemen, this concludes Technip's conference call. Thank you all for attending. You may now disconnect.