

FINAL TRANSCRIPT

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TKP - Q2 2006 Technip Earnings Conference Call

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Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the conference call for Technip, first half and second quarter 2006 results. This conference is being recorded. At this time, all participants are in a listen-only mode. Later, there will be a question and answer session. [OPERATOR INSTRUCTIONS]. I would now like to turn the call over to Christopher Welton, Vice President of Investor Relations. Please go ahead, sir.

Christopher Welton - Technip - VP IR

Thank you. Good day, ladies and gentlemen and welcome to Technip's second quarter 2006 results conference call. Mr. Daniel Valot, Technip's Chairman and CEO is hosting today's call.

I would like to remind today's participants of the forward looking nature of statements in today's press release and slide presentation as well as those that may be made during this call. Please refer to the disclaimers, which are integral parts of today's earnings press release and slide presentation. As a reminder, a replay of today's call will be available on our website approximately two hours after the end of this call. I would now like to hand the call over to our Chairman and CEO, Mr. Daniel Valot.

Daniel Valot - Technip - Chairman & CEO

Okay, thank you. Good day, all of you. I'll let you first have a few words of introduction and then we'll move to the questions and answers session.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

So our main numbers for the second quarter are already known. They have been released this morning. What is I believe interesting, is to see that during this second quarter, operating income started again to increase faster than revenue. We have 28% operating income, while revenues increased by 19%. Remember the situation was exactly the opposite last quarter, first quarter 2006, in which we had revenues growing by 30% with operating income lagging behind at plus 7%.

So we said last quarter that this phenomenon was due mainly to the fact that the big upsurge in our backlog in 2005, which was a massive event, triggered an increase in revenues. And this increase came mostly from the contracts recently signed and which according to our accounting methods, we don't recognize in the margin.

As already known, during the first quarter of this year, in the Onshore-downstream business segment, which is the one in which the backlog increased most rapidly, we had 70% of our revenues coming from contracts which were not generating any significant margins because they were in their early stage of execution.

Now this proportion in -- during second quarter has dropped to about 60%. And as a result margins are picking up a little bit. And so that the end of this quarter we have this change, a growth of 28% operating margin for 19% in revenues. And since the execution of new contracts is going to progress quarter to quarter, these trends would continue and hopefully accelerate in the coming quarters.

At the same time, we had major decrease in our financial charges due to the conversion of the convertible notes, which took place last March. And the combined effect of those two phenomenon, better operating income, lower financial charges is a net income increase of 55% compared to same quarter 2005. Fully diluted earnings per share stand at 0.47, an increase of 36% compared to the previous year.

In terms of return on capital employed on an underlying basis, we are today at 11.5%, so a very marked improvement compared to the first half 2005, in which it was 6.8%.

I won't comment on the whole presentation we sent to you over the web. What can be said the numbers are -- the numbers in terms of operating income and earnings are I believe, are correct. We have continued to generate strong cash during this first quarter -- second quarter and first half.

Our backlog stays at a high level above 11b and we intend to, if possible to keep our backlog at this level during the coming quarters. Which means our main focus now is no more to grow the volume of business but to grow the profits of the Company. At the same time -- and this is something which is described in the second part of our presentation, we are increasing both our work force and our assets. Both labor assets and industrial assets. So the work force has increased by some 13% since the beginning of 2005. So that's quite something and it shows that so far we have not met any real problem in hiring the people we need.

In terms of CapEx, our capital expenditures are expected to be some 50% higher than last year. And that comes mostly from development CapEx for the plants. We are in the process of increasing the capacity of our two plants, the one, the plants which are manufacturing flexible pipeline, the one in Brazil by 50%, the one in France by 20%. A big portion of this program is already executed and we expect the full completion by quarter second 2007.

We are also adding four new vessels to the fleet, partly through direct ownership, partly thorough charter process. And that's a massive effort in order to increase our capabilities in the SURF business. It's probably not the end of the road, since we are also thinking about what we should do in terms of improving our pipe laying capacity in the coming years.

Altogether the market remains very good. Our clients are not reaching the speed at which they want to launch new projects, certainly, in production, in refining, in petrochemicals, in gas [inaudible]. So the accessible market open to Technip is even today some 30% bigger than what it was one year ago. And as a result we have the luxury of being able to be even more selective than before in the business we want to pursue.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Altogether the end result is actually based on what has been achieved so far during the first half. And given the trends, which are developing in the market we believe we can reach our financial targets for 2006 which were revenues of 6.8b and operating income of at least 240m and more, as we said before. It seems to us that those targets are much more challenging than we thought some six months ago. But it's true that both the manufacturing capacities and the contracts and installations capacities which are serving the oil and gas projects around the world are very much stretched much more than they were one year ago. And that creates additional constraints on the execution of the contracts.

So that's the extent of my presentation. Now together with my colleagues we will try to be as ready as we can to answer your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. [OPERATOR INSTRUCTIONS]. The first question comes from Miss Katherine Tonks of Credit Suisse. Miss Tonks, please go ahead with your question.

Katherine Tonks - Credit Suisse - Analyst

Good afternoon. I've got some questions about SURF division.

SURF revenue seemed quite low in Q2 but the backlog does seem to imply a big increase in revenues in Q3 and Q4. As I understood it, buffer utilization was already very high in Q1 and Q2, so I'm just wondering what's going to drive that revenue growth going forward?

And then could you comment on what level of price increases you're seeing in the SURF division?

And finally on SURF, the slide you have showing accessible markets and the growth in the value of those, it seems that the offshore market is particularly strong. Is that driven by SURF or by facilities?

Daniel Valot - Technip - Chairman & CEO

May I answer your question with regards to SURF. It's not really accessible market. I would say and you notice it by looking at this chart most of the time, it's combined. It's large projects mainly in West Africa for which what we are looking at is both the facilities and also the [inaudible] and SURF portion of the job.

So I would say what is in fact taking place in the market is that there has been some cooling down of new projects on the west coast of Africa from the big wave we had known two or three years ago. And now it seems that there is a new wave coming with new developments in -- mostly in deep offshore, in Angola and Nigeria. And so that's creating this kind of revival of the market for large facilities and large SURF projects.

In addition of course there is the continuing story of business opportunities in countries or regions like Brazil and the Gulf of Mexico. But mostly the difference in the size of the market is coming from this revival of new projects in West Africa.

You ask how much we are increasing our pricing in the SURF business. That's -- it's a bit tough to answer to this question. I wouldn't like to have the answer distributed to our customers, which might not like it too much. I would say that what we are -- what we have been doing in the recent past in terms of pricing on our projects is more or less the same thing all across the board in the SURF division and in the other ones.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

If you take all together the profit margin and the contingencies we put in our prices I would say we have increased the average level in most of the segments by about 50% compared to what it was two or three years ago.

Now in terms of the development of the revenues in SURF during the last quarters of the year, your question if I understand it properly is this one. You say we are betting on a big increase in revenues in SURF during the second half of this second year. And we are betting on that at a time when the utilization rate of our vessels has been very high. So your question is how are you going to achieve such a big piece of business while your fleet is not extendable and it is already very busy.

I must say that the size of the revenues is not a direct proportion to the number of vessel base. It depends on the complexity of the project. And for the same number of vessel base you can have very small projects giving relatively modest revenues in the North Sea, or a very large project driving a lot of revenues in West Africa because the cost of the flexible lines we are delivering in deep offshore is much higher than the cost of the same line in shallow waters. So I would say there is no direct relationship between the number of vessel base and a lot of revenues.

And so the -- our best forecast is based on the actual contracts we have in hand and the way we see those contracts being executed during the second half. So we are pretty confident on our ability to reach this level and for [inaudible] the SURF business in the second quarter.

Katherine Tonks - *Credit Suisse - Analyst*

Thank you very much.

Unidentified company representative

Thank you.

Operator

Mr. Martijn Rats of Morgan Stanley, please go ahead with your questions.

Martijn Rats - *Morgan Stanley - Analyst*

Hello. Just two questions of a rather sort of housekeeping nature. First of all, I saw that the tax rate was particularly encouraging and a lot lower than in the past and a lot lower than I, for example expected. And I was wondering whether that is a temporary factor or whether there's a structural nature to that as well?

And secondly, looking at the order intake, I was wondering whether the -- you've booked the bulk of the Corsania project already, which is still several hundred million or so of order intake to be booked, if I'm -- if I remember correctly?

Daniel Valot - *Technip - Chairman & CEO*

Okay. On the tax rate, I'm glad we surprised you positively. It saves us from the number of times some people say they have not so good surprises with us. So no, seriously, we have been making a big effort in the past couple of years to improve our situation tax wise. I believe we are better structured now. We have a team of people dedicated to this tax optimization program all around the world. We pay probably more attention to the -- finding the best tax team on each and every project. So it's not -- our tax situation doesn't come by chance, it comes from an effort. It's true that we have been going below 30%. For the future I would say, we should normally stay around this level, somewhere between 28 and 30%. We are trying each year to improve a little bit, but you know it's more difficult to predict than some other things.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Anyway, it's -- I'd be surprised if we were hit again by the same type of tax burden we had three or four years ago.

Unidentified company representative

On Corsania, thank you for this question. Corsania is still today in our backlog a service contract. The discussions, which should lead of the conversion of this contract into a lump sum turnkey, are taking longer than expected. Now our best forecast is that this conversion should take place during this current summer. So either next week or during the month of August. And when it takes place of course, it will bring a big piece of business for backlog since our share of interest in this contract will be something in excess of 1.4b. So that's a big piece of business which is coming on our book.

Martijn Rats - Morgan Stanley - Analyst

Thank you.

Daniel Valot - Technip - Chairman & CEO

Thank you.

Operator

Mr. James Hubbard of UBS. Please go ahead with your questions.

James Hubbard - UBS - Analyst

Hello, good afternoon. Two questions both on SURF. The isolated incidents mentioned in the press release which have depressed SURF margins in Q2, could you give any more color on those? And if you can't go into the details, can you at least give us some reassurance that the margin we're getting this quarter is not representative of the ongoing margin, that is, there's no systematic execution issues going on in the division?

And then secondly on the fleet growth [that you tell us today], the four vessels you've got coming, could you take us through your thought process. How you see the supply demand outlook developing over the next few years and what your financial factors are -- you need before you go and make the decision of getting a new vessel. Is it like you expect x percent of turnover, x years. Just take us through your thought process there.

Daniel Valot - Technip - Chairman & CEO

Okay. These related incidents, technical incidents during the installation campaigns in some SURF projects. In fact, what we have in mind is two projects. One in West Africa and one in New Zealand. In West Africa, some difficulties on a rather challenging project because it's deep water. And we had technical mishaps with the pipeline dropping on the seabed during this execution campaign. So it's not a pleasant story. It was some technical failure, which we are investigating in close detail. It's not the end of the world because these type of incidents leads to additional cost which are to be borne by the insurance company. But as you are aware, we have to spend the money first and be paid back later on. So for the time being, the additional costs are on our P&L.

The second one is on a ship located in New Zealand for which we were provided some data which were inaccurate and that created a lot of difficulties in the execution of this project.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

So you want to know whether it's a systematic situation in the SURF business. Thanks God, not at all. It's only -- these are little technical incidents, unfortunate incidents which can happen on each and every project, but which have been very limited. And for which we have all reasons to believe that we will be paid back for the additional cost incurred because there is no fault of the contractor on those two matters.

What is the amount of the temporary impact we have on our books? I don't have the precise numbers in mind for each one of those two situations. But you've seen that during the second quarter, our margin ratio, operating margin ratio was slightly below 8%. We would expect it during the second quarter of the year to be at or even a bit above 10%. The first quarter was relatively weak but that's usual because it's because of the bad weather in the North Sea. Second quarter usually is stronger and we would expect if we had no problems to have day in day out operating margins in the SURF business at or above 10%.

Unidentified company representative

On the growth of the fleet, what is our thinking? Our thinking is that first we need to make sure that our fleet is able to do this job properly. And each year those vessels, they are like you and me they take one year more, so they are aging. So a portion of those vessels will need anyway to be replaced in the coming years. So it's good not to wait for those vessels to become too oldish and to start building new efficient modern vessels, which are also more able to satisfy the new and very stringent regulations in terms of safety. I'm talking about the [guardianship] of vessels especially in the North Sea. That's the reason why we are building a new vessel, a DP111 vessel for Norway which will be used primarily to serve the North Europe IR contract we signed with Statoil last year. And that's something we are doing through a joint venture through ourselves and Norwegian ship owner DOF.

For the U.K. business we are also getting a new vessel, which will be delivered towards the end of 2007, which we are taking under a lease agreement. So we are not for this one putting it on our balance sheet. We purchased an additional vessel, [inaudible] which will be converted into a [inaudible] vessel to serve our expanding business in India and the Middle East. And we've also clinched a deal for a three-year contract for a service vessel.

So what is our thinking? We are today the clear leader on the SURF market with a market share, which is on average something like 35% and we intend to keep this position. The market is growing pretty fast in fact driven by the growth in the main deep offshore. But also the North Sea business, although not growing at the same speed, it is still a robust business for which we need to have the proper vessels. So in a business which is growing fast, if we want to keep our leading position, we need to increase our -- the capacity of our fleet.

What we want to do is to do it in a cautious way and not putting everything on our balance sheet, but through a combination of vessels owned and vessels chartered for a relatively long period of time. So that if at a later point in time the market goes down, because the markets never go up ever and ever again, if the market goes down at least we won't be stuck with assets, which will be under-utilized. So that's our overall philosophy in terms of fleet.

I would like to add that those four new vessels are not the end of the day for us. We are also thinking about what we should do in terms of pipe laying vessels. And we have a study, which is going on. We are expecting to be able to make a decision by the end of this year or early next year, about the construction of a new pipe laying vessel, which would complement the fleet of Technip as it is today.

James Hubbard - UBS - Analyst

Okay. Could I just ask one follow up question? Which is basically as part of this process, you must have looked at the supply demand dynamics. How do you see SURF market supply demand of vessels going up 2010?

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Daniel Valot - *Technip - Chairman & CEO*

Well, as everybody we've been looking very carefully at what our competitors are doing. We understand that if we take the all competition, including the ship owners so that everybody who is investing in these type of vessel, which includes our competitors and also a number of ship owners doing that on their own in order to lease them later on. It's something like 20 new vessels, which have been ordered during the past couple of years. Which is quite dramatic addition to the fleet as it is today.

And so what one cannot rule out that if there is a cool off on the market in, I don't know what, four five six years from now, we could very well end up with an excess of capacity again. And that's the reason why we are trying to play this game very carefully by increasing our capacity in order to keep our status as number one in the market, without taking the risk of being stuck forever with vessels which would be under-utilized at a certain point in time, if there is again overcapacity in the market in a few years from now.

James Hubbard - *UBS - Analyst*

Okay, thank you.

Daniel Valot - *Technip - Chairman & CEO*

Welcome.

Operator

[inaudible] of JP Morgan, please go ahead with your question.

Unidentified speaker

Thanks very much. Just a really quick question on backlog scheduling. You've got about 3.6b scheduled for the second half of 2006 and 4.5b scheduled for 2007. I was just curious, are you able to give me some idea of what the portion of those figures is attributable to contract awarded in 2003?

Daniel Valot - *Technip - Chairman & CEO*

From what has been awarded in 2003, it would remain much during -- well it will remain a little bit in 2006 but nothing or close to nothing in 2007. Contracts awarded in 2003, the longest ones were for a duration of about three years. So at the end of 2006 most of them would be over.

Unidentified speaker

I suppose what I'm trying to get at is do you know the portion of backlog scheduled really in 2007 from contracts which you were awarded prior to the anticipation of an inflationary environment and a tight capacity environment as well?

Daniel Valot - *Technip - Chairman & CEO*

It's a very good question. I don't have the answer on the back of my head. So if you don't mind, we'll look at it and Chris Welton will call you back to give you some indication. I'm afraid you'll have to be satisfied with -- yourselves with approximations.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Unidentified speaker

Okay. Sure, sure. Thank you.

Daniel Valot - *Technip - Chairman & CEO*

Thank you.

Operator

Paul Andriesson of Fortis, please go ahead with your question.

Paul Andriesson - *Fortis - Analyst*

This is Paul Andriesson of Fortis. A few questions. In the first place on the SURF division when do you expect settlement of these cost overruns with insurance companies or the client on the West Africa, New Zealand projects?

Then second question on your guidance, you say it has become more challenging than several months ago. Is this let's say a repetition of the same you said a few months ago, or has it again become more challenging since we last spoke with one another?

And then a question on the status of your Onshore-downstream projects you have been winning since the fourth quarter of 2004. Is there profitability on those -- your expectations still the same as it was when you won the project?

Unidentified company representative

Okay. Thank you for those questions. On the first one, when do we expect the settlement of the issues we faced on these two projects, two SURF projects, one in West Africa the other one in New Zealand? I would say the settlements will have to be made before the end of this year, but obviously in order to reach an agreement you need to be two and we are on those matters obviously in a bigger hurry than our biggest customers, as you can imagine. But there is no reason, this being said, that should drag on for ages. So it should be normally settled before the end of this year, at least that's what we are expecting and on what we are working diligently.

In terms of guidance, I'm just repeating the exactly the same thing I said last April. The situation is no different, no worse. We had the drop, we tried to signal to the market, to the financial market, the fact that there were some capacity constraints in the manufacturing industry and in the installation and construction capacities for the oil and gas projects. It's a fact.

There have been such a big increase in new projects in 2005 that, surprise, surprise, six months later the projects which have been awarded start ordering equipment and metals from the factories and so the factories all of a sudden are stuck with a large number of orders. And so the situation is no better, no worse today. I would expect that after some time we will get back to a more normal situation because there would have been some increase in capacity in the manufacturing industry.

For the time being the situation is no better, no worse than it was a few months ago. So we are repeating exactly the same guidance, with the same tone. Our guidance is maintained. It will be very challenging, but it is maintained.

Now on the new Onshore-downstream projects, so far you are looking at the projects which were awarded to us since the last quarter 2004. So far those projects are developing quite satisfactorily most of them. So we have, both in terms of engineering and in terms of procurement, so far, so good.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

We are more or less within the budgets. We didn't have a big bad surprise. Now we are still in the early stage of execution, and what stands in front of us is construction. So we are facing the usual risks on construction. I cannot say those projects will be wonderful successes. We'll know about it 2007 and even more so in 2008 when they will be completed. But so far it's okay.

Paul Andriesson - *Fortis - Analyst*

Okay. And if I may one follow up question. In recent months you pointed to a problem surrounding contract closure in these locations primarily from projects in 2003. Did they -- did that issue in any way impact the second quarter results, beyond of course, the settlement of the offshore facilities issue?

Daniel Valot - *Technip - Chairman & CEO*

Well, you've probably seen we mentioned it in our press release that we had a settlement which took place on one of the facilities projects during the quarter. And it showed just what I said when we released our first quarter numbers. I don't know if you remember this time in first quarter our facilities operating margin was rather disappointing.

And I talked to the financial market that was because of the settlement we were expecting on a project, and that if we had closed our books a few days later this settlement would have been in the books and you wouldn't have seen any bad operating margin because these were in the first quarter. And that naturally arrived in our books in the second quarter. You've seen that we have during the second quarter an operating margin close to 10% in facilities. That comes mainly from this settlement.

So yes, it's true, there will -- it's a year in which we are closing a number of deals made in 2003, and those contracts we suffered from the big crisis and the steel price and other raw material cost. So the end of those projects is a bit difficult and we need to do difficult discussions with the client. We are in the middle of this process. I do hope that by the end of this year it will be completely beyond us.

Paul Andriesson - *Fortis - Analyst*

But were there issues during Q2, which in any material way did negatively impact your result?

Daniel Valot - *Technip - Chairman & CEO*

Apart from the two things we mentioned in the -- on the SURF business, no.

Paul Andriesson - *Fortis - Analyst*

Okay, thank you.

Operator

Mr. Mick Pickup of Lehman brothers. Please go ahead with your question.

Mick Pickup - *Lehman Brothers - Analyst*

Good afternoon. Just wondering if could help me, I'm a bit confused here. You talk that you pricing on SURF contracts and contingencies is getting better and than you said you wanted to get -- return to a 10% level. Yet in the interview this morning on CEO Direct you talk of a 10% operating margin and is a notional margin we should keep for the SURF business going forward.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Now that's the margin that you were talking about back in October 2004, since when the markets got significantly stronger and all your competitors are talking of margins 3, 4, 5 percentage points higher than that. Firstly why aren't we seeing that notional margin going forward expanding?

Secondly, just on vessel schedules, you've had an unfortunate incident. Can you just confirm that the Deep Blue isn't going to be behind schedule for the next contract.

And just finally you mentioned the pipeline vessel. I know it's early in the stage. What type of pipeline vessel is this? Is this a new flexi layer or are you considering entering the big gas trunk line market?

Daniel Valot - *Technip - Chairman & CEO*

Okay, probably I can tackle your first question. Probably I expressed myself in a not too clear way. I'm sorry about that. It's true we said a couple of [shows] ago that the notional margin we are expecting to get on the SURF business is 10%, which means that in the current market environment we should get something better than that. So it's true that we are expecting for the future once the big SURF contracts come to an end, the contracts which have been won in the recent, to achieve much better margins. Something like 12 or 13%. It's true, I'm sorry if I give you this impression that we were still sticking to 10%.

On the schedule of the Deep Blue, for the time being we don't see any problem for the Deep Blue to be on time on its next job.

Now your third question was on that the pipe-laying vessel.

Mick Pickup - *Lehman Brothers - Analyst*

Yes.

Daniel Valot - *Technip - Chairman & CEO*

Well, it's true that what we are doing -- the question we are asking ourselves is the following one. Between the Deep Blue and the Apache there might be the need for an additional vessel for Technip, which would be not as luxurious or as sophisticated as the Deep Blue, but which would be at least as good the Apache. And so that's the topic on which we are scratching our heads for the time being.

Mick Pickup - *Lehman Brothers - Analyst*

Okay, and that's a flexi lay plus infield risers and flow lines vessel; not a big gas trunk line large diameter vessel?

Daniel Valot - *Technip - Chairman & CEO*

No, it's not -- we are not contemplating pertaining to the trunk line business.

Mick Pickup - *Lehman Brothers - Analyst*

That's it thanks. .

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Daniel Valot - *Technip - Chairman & CEO*

Okay, thank you.

Operator

Alejandro Demichelis of Merrill Lynch. Please go ahead with your question.

Alejandro Demichelis - *Merrill Lynch - Analyst*

Yes, good afternoon. Just have a couple of questions on your SURF business. We've seen some of the other people operating in the Kikeh project in Asia Pacific that are having to reschedule the work in the fourth quarter of 2006, and I was wondering how is this going to affect your business?

Also, in Brazil we're seeing some delays in the Roncador project. Is that going to affect your margins going forward as well?

Daniel Valot - *Technip - Chairman & CEO*

You want to -- well I would like to ask [inaudible] to answer to your question [inaudible]. First on the Kikeh project in Malaysia.

Unidentified company representative

Yes, so concerning the Kikeh project, there is no delay in the development of the reversal of the start. We will install as it were already [inaudible] on the and concerning the flexible on the installation, so far there is no delay in the project.

Alejandro Demichelis - *Merrill Lynch - Analyst*

And in Roncador?

Daniel Valot - *Technip - Chairman & CEO*

In Roncador the same there is no --

Unidentified company representative

We are not aware of any delay which would affect our business.

Alejandro Demichelis - *Merrill Lynch - Analyst*

Okay, fine, thank you.

Daniel Valot - *Technip - Chairman & CEO*

Thank you.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Operator

Christyan Malek of Deutsche Bank, please go ahead with your question.

Christyan Malek - *Deutsche Bank - Analyst*

Good afternoon gentlemen. It seems -- your earnings seem to fluctuate more with variation orders than actually any sort of fundamental operations success, and my questions are going to be around variation orders. The first one is how confident are you that you will be able successfully complete all variation orders? And can you give us visibility in terms of timing? is it going to be Q4 this or maybe the end of next year?

Second question is regarding, again, variation orders. Now the downside pressure, or the challenging target you guys set yourself for the end of this year, is it related to you being able to process variation orders or is it related to any underlying operation success or problems as the year closes?

Daniel Valot - *Technip - Chairman & CEO*

I'd like to explain. We are living in a world in which the oil companies are very much in a hurry to complete the projects as soon as possible. Why is that so? Probably because the barrel being at \$70 there is a sense of urgency to put things into production. But more generally speaking, the oil companies are now more eager to save time and to complete the projects as soon as possible.

As a result many project has started now with a very limited preliminary studies, and the end result is that after the EPC contract is awarded to the contractor, there are most of the time many, many changes during the engineering phase. So the change over, which was in past was relatively limited in terms of value, compared to the overall size of the project, today changeovers are getting bigger and bigger.

So it becomes a real concern because the changeovers have to be agreed upon between the contractor and the oil company both in terms of impact on the price and the impact on the delay on the schedule. And that leads to difficult and protracted negotiations in the climate when, given the rising technical costs, the oil companies are not very eager to close very soon the change over price presented by their contractors.

That's the situation we are facing, and I would assume we are not the only ones in our industry confronting this situation. So when you ask the question and I understand it's a very reasonable question, are we, do we believe all the changeovers and claims will be settled before the end this year? It's a very valid question for which I have no answer.

It's obviously our goal to settle those changeovers and claims as quickly as possible. And it's -- I want to do it when we have in front of us client which is working in good faith. When it's not exactly the case the discussions can be -- can drag on for a long time and there is not much we can do about it.

Christyan Malek - *Deutsche Bank - Analyst*

Okay. What I'm trying to get to the bottom of is are these variation orders, is there -- are they implicit in the 340m target you have on your EBIT for this year? Is there an assumption that you will get those? Were you talking more about operational pressures in general?

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Daniel Valot - Technip - Chairman & CEO

What I'm trying to explain is that changeovers is part of the operations. It's not something you have disconnected for the execution of the contract. It's at the heart of the execution of project. And obviously when we set our target for the full year, when we said we will make 340m, we have to take an evaluation -- to make an evaluation of our changes, to absorb a number of those changeovers before the end of this year.

So if you're question is are we assuming that the certain changeovers will be settled before year end when we say 340m, yes of course. We have to take our best guesstimate about the execution of the projects we have under execution, including the settlement of changeovers because its part of the execution of the project. It's not something different.

Christyan Malek - Deutsche Bank - Analyst

Right, thank you gentlemen.

Daniel Valot - Technip - Chairman & CEO

Thank you.

Operator

Paul Andriesson of Fortis. Please go ahead with your question.

Paul Andriesson - Fortis - Analyst

Yes. One follow up question regarding revenues looking forward to 2007. You're making 6.8b this year. That's at least the plan. You have some 4.5b currently scheduled for 2007. You don't expect the backlog to grow in size anymore. Is there a risk that revenues 2007 will be below those of 2006?

Daniel Valot - Technip - Chairman & CEO

Okay, let's do a little bit of math, although it's very early do that. We know better where we are at the end of this year, but just a little bit of number crunching. So with the backlog we have today we say we will get 4.5b in 2007. Before the end of this year, in order to reach our goal, which is to stabilize the backlog, we need to add something like 3.6 okay. 3.6 more, on which during the first year we will generate what - 40%, 50%, 30%. This one two, so that leads to 5.7. Okay so it is nice doing crunching of the biggest numbers. We could, at the end of this year with the backlog, which would generate in 2007, something close to 6b. And then you have to take in account the move orders we would get during the year 2007 which would start generating some revenue through the year. So the likelihood that we have a big drop in revenues in 2007 is not very big to say the least.

Paul Andriesson - Fortis - Analyst

Okay, yes, thank you very much.

Daniel Valot - Technip - Chairman & CEO

Thank you.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Operator

James Hubbard of UBS, please go ahead with your question.

James Hubbard - UBS - Analyst

Hello, just one more question. Your discussion just had about the clients with that are in a rush and only have relatively poor engineering done. I'm wondering, in today's market, when every thing is so strong and you and your competition talk of picking which contracts you wish to bid on, what do you do when you're faced with a client say that you know only has preliminary poor feed studies [pending]. Presumably you can do something about that today and can you for example migrate the Corsania contract model outside of Saudi Arabia?

Daniel Valot - Technip - Chairman & CEO

Well, I'm not sure I completely understood your question, but when we have in front of us the client we do think which has been a bit quick and dirty, we try to make the shape of the client in order not to endorse the feed before signing the contract, but being able to check the feed and some clients are ready to accept that.

We want to check the feed during the first three, four, five months of the execution of the project and be entitled to a change over if we find significant mistakes in the field. So if we are not able to have this opportunity we would rather not take the job because it would carry to many risks.

James Hubbard - UBS - Analyst

Right. And then the Corsania model where the initial engineering phase is done on a fixed cost or a cost plus basis before it bridges into a lump sum model. Why, if the environment is so strong why aren't you forcing clients to use that around the world?

Daniel Valot - Technip - Chairman & CEO

Well, first you need to realize that even if our bargaining position is better than it was two years ago, when you use the expression, why don't you force the clients to go this way, you are a little bit over estimating the -- our balance our bargaining power, [improve] that lets say excellent model for instance.

That most unusually we are now in a situation in which the contracting model, the dominate contracting, which is the lump sum turnkey, is challenged by new ways of contracting. The so-called Corsania model is also adopted by a number of clients in the U.S. for domestic jobs in the U.S. in which they start by giving to an engineering company the preliminary studies, then the feed and then the EPC contract on a negotiated basis right from the start. So in a kind of cooperative model.

There are some contract in which the clients accept to take the risk of the big portion of the procurement by getting themselves the long lease items and providing them to the contractor. There are contracts on which we have been working on the engineering and taking care of the procurement before the contract was officially signed. So it's a kind of early works agreement. So there are the so-called Corsania model, we are of course unable to force our clients to go to it but I think it's making progress in the industry slowly. It's making progress and I do hope that this progress will continue in the future because we do believe it's a kind of -- it's a way of contracting which is well adapted to the current situations.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

James Hubbard - UBS - Analyst

Okay, thank you.

Operator

[OPERATOR INSTRUCTIONS]. [inaudible] from [inaudible] Asset Management, please go ahead.

Unidentified speaker

Yes, hello. It's quite unfortunate that you reported just after Saipem, so obviously give a comparison or it give a proxy to your performance. And I have to say you -- because you didn't really answer to the question previously vis- -vis the extent of which your orders of the poor order book of 2003 will start expiring which I assume should be worst case '07.

And then would I be able to make a comparison from the straight forward business to the business of Saipem excluding Snamprogetti in order to judge your performance of Technip [inaudible]?

Daniel Valot - Technip - Chairman & CEO

This is I give you comparison [inaudible - not English]. I don't often get into this comparison with Saipem. We don't have exactly the same type of business as you know although there are some business lines in which we are both involved.

But I -- first you said we don't answer the question about when will the not so good contracts of 2003 leave [inaudible]. It's early. I mean you have to get back to those contracts there. The contracts which were signed in 2003 the last -- the biggest of them were supposed to be completed by the end of 2006. So we'd assume that by the 2006 they will be behind us.

What can stay a little bit longer is the settlements, there is close out negotiations which might take a bit longer. But if it's just the close out negotiations, which stay a bit longer, it's not a big deal because what will be at stake will be an upside and not a downside. But please don't imply that we are not at least trying to answer completely to all the questions which are raised.

Now you said that also on -- and that I don't understand, if we want to compare the performance of Saipem and the performance of Technip, better not take into account Snamprogetti, why?

Unidentified speaker

I presume it's a -- you're right, maybe why not, are you in the same business?

Daniel Valot - Technip - Chairman & CEO

With Snamprogetti?

Unidentified speaker

Yes.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Daniel Valot - *Technip - Chairman & CEO*

Yes very much so. Much more than with Saipem.

Unidentified speaker

I thought you used drilling offshore [inaudible] comparison with Technip that's why I use the comparison. And in that case you can see that definitely, which is more or less what you used to say, and in terms of margin guidance. Your target was to be in offshore between 9 and 10, or and on facility, that is, construction 5, which give you blended of 7% plus. Which is more or less what Saipem is doing excluding drilling. In other words obviously they have not signed [inaudible] or I misunderstand something.

Daniel Valot - *Technip - Chairman & CEO*

No, what you say sounds quite reasonable. I do believe that in the industry both Saipem and Technip are seen as competing companies doing their business as seriously as possible. So I wouldn't be surprised if at the end of the day, excluding drilling which is a different world, our performance was pretty close.

Unidentified speaker

I'm looking forward to see it.

Daniel Valot - *Technip - Chairman & CEO*

Yes, okay. One thing you need to take into account, I don't what you are referring to is that when they show the results of various business segments, Saipem talks in terms of contribution. Contribution is before SG&A. So if you want to compare their numbers to ours you need to extract the numbers the SG&A in order to get to operating margin. So that's something -- I don't know if you did it but a proper comparison, it should be this way.

Unidentified speaker

Fair enough.

Daniel Valot - *Technip - Chairman & CEO*

Okay.

Operator

Miss Katherine Tonks of Credit Suisse, please go ahead with your question.

Katherine Tonks - *Credit Suisse - Analyst*

Hello, yes I've just got one very quick question. Could you give me the value of prepayments reflected in the net cash balance? That is Technip's real cash.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Daniel Valot - *Technip - Chairman & CEO*

Sorry, what do you call real cash Miss Tonks?

Katherine Tonks - *Credit Suisse - Analyst*

I just wondered if you could tell me the value of prepayments in your net cash balance so I --

Daniel Valot - *Technip - Chairman & CEO*

Right because a prepayment is not real cash?

Katherine Tonks - *Credit Suisse - Analyst*

Not yet.

Daniel Valot - *Technip - Chairman & CEO*

Why?

Katherine Tonks - *Credit Suisse - Analyst*

You have to finish the project. You must wait until you finish the project.

Daniel Valot - *Technip - Chairman & CEO*

I must wait to do what?

Katherine Tonks - *Credit Suisse - Analyst*

To finish the project and then you can have the cash.

Daniel Valot - *Technip - Chairman & CEO*

Before putting the money in my pocket?

Katherine Tonks - *Credit Suisse - Analyst*

Yes.

Daniel Valot - *Technip - Chairman & CEO*

I get it from the first day, my pocket.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Unidentified company representative

We can give you the number. We need to find it because really it's not something we are looking at each morning. Because I believe it's not a real concern.

Katherine Tonks - *Credit Suisse - Analyst*

Okay.

Daniel Valot - *Technip - Chairman & CEO*

We'd have to give to back to the client if the contract was cancelled. It's a [inaudible] payment. We almost never have had contracts to be cancelled. So the question frankly speaking, and don't take this as a rude answer, but the question is not relevant. But nevertheless we will provide you the -- a number, that is an approximate number but the importance [inaudible].

Katherine Tonks - *Credit Suisse - Analyst*

Thank you.

Operator

Mr. Paul Andriesson of Fortis, please go ahead with your question.

Paul Andriesson - *Fortis - Analyst*

A follow up. If I look at your main contract execution schedule and compare it to the one you issues half year ago I see Rasgas III having gone to finalization 2009 Q4 2008 Q3 and Qatargas III & IV into 2010 from 2009 Q2. Can you comment on those extensions of the schedule?

Christopher Welton - *Technip - VP IR*

Paul, it is just that we used the last train as the ending of the contract, whereas before we had used the delivery of the first train. That's the only change. Okay.

Daniel Valot - *Technip - Chairman & CEO*

Sorry for this one. You now each one of those contract is composed of two trains and there is a big delay, several months between the expected completion of the first one and the expected completion of the second one. But nothing has changed in the schedule of those projects.

Paul Andriesson - *Fortis - Analyst*

Okay. Excellent, thank you.

Jul. 27. 2006 / 9:00AM, TKP - Q2 2006 Technip Earnings Conference Call

Daniel Valot - *Technip - Chairman & CEO*

Thank you.

Operator

There are no further question at this time, please continue.

Daniel Valot - *Technip - Chairman & CEO*

Well, thank you very much for your attention. So we believe we delivered relatively strong numbers for this second quarter. And I wish we can say the same thing next when we meet at November, when we release our third quarter number and we will be moving, go ahead full speed in order to reach our goals of 6.8b revenues and at least 340m operating income.

Thank you for your attention.

Christopher Welton - *Technip - VP IR*

Ladies and gentlemen. This concludes today's call. As I mentioned earlier, a replay of this call will be available on our website in about two hours. Please don't hesitate to call Technip Investor Relations should you have any questions or require additional information. Thank you very much and have a good rest of the day.

Operator

Thank you for your participation in today conference. I'd like to clarify that a replay of this call will be available within the next two hours. The replay will be on our website www.technip.com, in the Investor Relations section, or by dialing +44 0207 806 1970, using the confirmation code 4640678#. Or by dialing +33 0171 2302 48 using the confirmation code 4640678#. Or by dialing +1 718 354 1112 using the confirmations code 4640678#. The replay will available for seven days. Thank you and goodbye. You may now disconnect.

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