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Event Transcript

TKP - Q3 2003 Technip Earnings Conference Call

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TKP - Q3 2003 Technip Earnings Conference Call

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Technip - Investor Relations

Daniel Valot

Technip - Chairman of the Supervisory Board, Chief Executive Officer

not able to identify

Technip

CONFERENCE CALL PARTICIPANTS

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[unknown]

Dominique Paltry (ph)

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Michael Carter

ING

Stephane Bensoussan (ph)

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Roy Stewart

Simmons and Company

James McPickup (ph)

Lehman Brothers

Joe Mares

Morgan Stanley

Peter Testa

One Investments

Duncan Goodwin

Merrill Lynch

Lionel Sharmadon (ph)

Morgan Stanley

Andrew Vissock (ph)

Williams DeBroe

Thomas Martin

[unknown]

Charles Lesser

UBS

Alla Toboussa

First Bank/Amsterdam

Jean Luc [inaudible] (ph)

[inaudible]

[inaudible] [inaudible]

ABC Securities

PRESENTATION

Operator

Welcome to Technip third quarter results today Thursday 20 November, 2003. Throughout today's presentation all participants are in listen-only mode. After the presentation there will be an opportunity to ask questions. Any participant has difficulty hearing the presentation, press the star followed by the zero to indicate assistance. I will hand the conference over to Mr. David Alexander.

David Alexander - *Technip - Investor Relations*

Good morning ladies and gentlemen. We are pleased to welcome you to Technip's third quarter 2003 results conference call. Listening to the call is Mr. Daniel Valot Chairman and CEO. We will commence first on the group's performance before opening the call up for questions from the audience.

We would like to remind our listeners about statements in today's release that are not historical fact are forward-looking statements within the meaning of the Private Securities Reform Act of 1995. We are strongly encouraged to refer to the press release. At the end of this presentation which is available on our website. I will now turn the call over to Mr. Dan Valot, Chairman and CEO of Technip.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Good day and thank you for being with us today. I suppose you have seen our press release and our web presentation so I will mostly refer to the presentation in my commence.

First of all, on page 4 of the presentation, we gave you information on the progress by Technip in the areas of corporate governance, and values. I think we made good progress in those areas. We are very proud on being selected on [inaudible] of the Dow Jones Index.

Page 5, we show our main numbers for the first nine months of 2003 so I give just a quick summary. Once again, it's a very solid performance in terms of ordering up 28% and backlog of 24%. It is known that 2003 will remain in the history of this company as an extremely successful year in terms of business development.

In financials we are broadly in line with expectations. Revenues are up 3%. Operating income is up 15%. This is good achievement especially when you take into account the sharp

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decline in the value of the U.S. dollar and other currencies investors use.

Just a word about our third quarter numbers, some of you have may be surprised by our operating income being off the consensus, we comment on this specific point later on. On the nine month business, the improvement in operating income and the reduction in financial costs led us to free tax earnings of up to 23%. After-tax net income is flat compared to last year.

The overall picture is strong progress in operating income offset the net income level by 2 factors which are first a operating job moving up and certainly more importantly an increased tax burden. I make a few comments on those two items. First on the nonoperating income, we have taken the charge of 4 million Euros to cover the cost of downsizing our Finnish job in [inaudible] Finland. As you know, the yard has been extremely busy this year with new spot construction. But since the last SPAR which is scheduled to sail away before year end, the level of the yard activity will fall softly. As a result, we are taking steps now to downsize the work force. As you know, there were no new spot projects allotted in 2003.

Fortunately, there are two or three prospects identified for 2004 and if we are successful in getting this new business, we could anticipate the resumption of fabrication activities in the yard by mid-year 2004. The tax burden and you won't be surprised to see that the trend which has gone to a higher than unusual tax rate in the first two quarters is confirmed for the 9 month and is expected to be confirmed [inaudible].

So for the first year, for the first nine months our tax burden amounts to 58 million Euros, some 24 million Euros more than for the first nine months last year. As was indicated before this unusually high tax rate, comes from a combination of factors which are mainly a good level of profits generated in high tax areas such as Italy and in some of the countries and especially in the United States where losses were recognized we decided not to activate in the tax [inaudible].

It is clear in the review of the area of tax management a lot of potential for improvement which will come online next year thanks to the completion of the merger of Coflexip into Technip which we did in last July as well as some other actions which are currently under way. You probably remember for those of you in the company that during our September conference call we mentioned the fact that we were struggling with five contracts for which we had experienced some difficulties. These are almost behind us now. We are still exposed on two of the

contracts. The completion of which will be sometime during the first weeks of next year.

But it is clear in my view that the worst is behind us as the losses anticipated on those contracts have been booked during first quarters. [Inaudible] it shouldn't have a material impact on our future earnings. As a result and since we are getting close to the year end, I think we should be able to tell you for the full year of 2003 sales and operating income brought in line with our initial guidance for the year and our guidance was 5% increase on sales and 10% on operating margin. And that should be up in spite of the weakening of the U.S. dollar and other currency which took place and assuming, of course, there would be no further weakening of the dollar before year end.

As far as the net income is concerned for the full year, it will be [inaudible] as we as we said before by a higher tax rate than was anticipated at the beginning of this year. At this point in time, we can pull to a slight increase in our net income, probably not to which level was indicated in our guidance.

Coming back to the presentation on pages 6 and 7, you find the break down of our numbers by business segment which we did [inaudible] the previous quarter. As you can see from those pages, most of the improvement in operating income for the company comes from offshore branch and inside this branch more specifically from the facilities business segment.

In the onshore activities we are still working on the contracts in 2002 and at the stage where revenues go up, while very little margin is recognized given our very cautious accounting policy for margin recognition. As can be seen on page 27, this situation is changing during the third quarter as Italy is now moving up a bit faster than revenues in other areas.

Pages 8 and 9 we showed a cash flow imbedded sheet. This is another area of satisfaction. With the with the expected improvement in working capital which took place during the third quarter, our net debt and I will reassure are back to normal. On page 11, we showed a trend in our ratio in the last few years from a peak of 44% in June 2003, it is now down 28% and we are targeting 20% by year end 2004.

I would like to remind you that the cash cost of our debt is very low. At 1.8% and that we have no material debt repayments due until the end of 2006. On pages 12 and 13 of the presentation, we described the way we operate. I think it's important to realize that we at Technip organized as a network of centers working all over the world. So the theory launched

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contracts which are not all executed in our working manifest in Paris and not even in your land.

For instance, [Inaudible] are executed in our Aberdeen office and the east area project in Nigeria is managed by our office in Kuala Lumpur. Other centers we have the number of low cost engineering centers in various countries which is a massive help often in terms of flexibility and cost. As a result and as can be seen on page 14, even if our headquarters are in Paris, we are not a pure Euro player by far. You can see that some 64% of our work force is looking to outside of Euro land as well as 43% of our fixed assets.

On the other side, 51% of our revenues are in currencies other than the Euro, and only 22% of our revenues are expressed in U.S. dollar. If you move to page 15, you can see that the former Coflexip was rather technical business because of the very nature of its business.

The former Technip was not technical capital intensive at all. The new Technip is becoming less and less capital intensive as we have sold several non-strategic assets and applied to new capital spending. And since the sale of the former Coflexip business, the SURF business is only at something like 30% of our overall business.

Turning now to the output of the company, we believe it's very positive given the first of size and quality our back end will which is again at the historic level of 7.5 [inaudible]. And given the overall trends which are reflecting on our main markets, we have summarized the trends on pages 18 and 19. What appears is that those trends are moving in the right direction in the long run even if we expect some slow down in new orders next year in the west African markets. Then there are several attachments to the web presentation which show in part the detail of our numbers for the third quarter.

So we realize that our operating income from this quarter exceeds market consensus. As I said several times, in [inaudible] the quarterly numbers are not always very meaningful. Actually, what happened for the third quarter is that in the past few weeks we had a number of various issues which were settled with clients in the positive manner. We had previously anticipated that the resolution of those issues would take a bit longer and therefore would not impact group earnings until the fourth quarter.

The last attachments are similarly a brief description of the contracts so far this year. When we say that in addition to these contracts, we have currently three backlog which means

contracts signed but not yet put in force for about 700 million Euros. And we also expect a few major additional contracts before year end which means that we feel good about our backlog at the end of this year.

My conclusion before getting to the Q&A session is that the merger between Technip and Coflexip has generated access to a lot of opportunities and should therefore produce a significant improvement in shareholder's value over the coming years. I would like to point out at this stage the major change which has ordered in the break down of our back log since the beginning of this year. When the year started, we had a backlog of 5.8 million Euros split between SURF 21%, offshore facilities 10%, onshore projects including industry 69%.

Nine months later our backlog is 30% higher at 7.5 million Euros. We have a rather different split. SURF is now 28%. Offshore facilities 14%. Onshore and industry projects 58%. Extracting in Euros this change means that the SURF backlog is now at 2.1 million Euros versus 1.2 at the beginning of the year. So it's increased 76%.

The offshore facilities backlog has almost doubled it's at 1 billion Euro versus .6. And for the onshore activities including industry, we stand today at 4.4 billion versus 4 which is an increase of 9%. And it's clear that this change in our business mix is giving us a potential for better margins in the near future. That's the extent of the comments I wanted to make and now we are ready to take your questions. Thank you for your attention.

QUESTIONS AND ANSWERS

Operator

Thank you. If you would like to ask a question please press the star followed by the one on your telephone. If you wish to cancel a request please press the star followed by the two. The questions will be polled in the order they were received, there will be a short pause while participants register their questions. The first question comes from Mr. Jean Luc Remain. Please state your company name followed by your name.

Jean Luc Remain - [unknown]

Good afternoon. [Inaudible]. Could you please talk about the impacts of [inaudible] with the plans on third quarter offshore margins?

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Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

It's a collection of small things, really. You know in the execution of contracts you may have some discrepancies between your viewpoint and the one of your client and our interest in the one of contractors, a few claims here and there, a few or whatever, and this kind of thing is very difficult to predict when they are solved. It happens that some of them were solved during last couple of weeks and this has been taken into account in our accounts. But there is nothing specific.

Jean Luc Remain - *[unknown]*

Okay, thank you.

Operator

Thank you. Next question comes from Mr. Dominique Paltry. Please state your company name followed by your question.

Dominique Paltry - *[unknown]*

Good afternoon. This is Dominique from [inaudible]. I have one question with regard to the backlog evolution. How would you quantify as on the evolution, is it exceptionally for you or more or less a kind of normal level given the new size of the group Coflexip acquisition?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

I wish I knew. I would say that we all now are entering into a new stage of our development. We used to be putting Technip and Coflexip together on the form that we will have the excess to a business of we were generating a backlog of around 5 billion per year. We are now in the new era in which we should generate much higher backlogs. We reach the 7.5 this year. It's quite an exceptional achievement in such a short deal of time, that's true. What will be our backlog by year end? Probably well above 7 again. And I would expect to continue more or less this way in the coming years. What is clear, however, is that when we look at the market prospects for next year, there will be some slow down in new orders for the major [inaudible] in West Africa. There has been a big flow of orders during the last spring and summer. There is, there will be new rounds but the 2004 round is a little bit more limited and what we have seen in the last year. So I would expect that the company will

continue to generate larger business than prior to prior to Coflexip. I will not give you a written guarantee that we will be always at 7.5 or both.

Dominique Paltry - *[unknown]*

Okay. Have I another question regarding the trend in margin of the offshore division. So far you have had over the 9 months of 2003 of 12% of medium margin in the offshore division. How do you see this margin evolving so that in the magnet within the several project in the offshore division which will be in the early stage of completion?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, I'm sorry, but at this point in time we are not ready to give any kind of guidance for next year. We are still in the middle of our generating process and therefore we have to be very cautious before giving any indication. It's true that most of the large offshore projects which were awarded to us a few month or week ago will be in their first year, in their first 18 month of execution and that given our accounting policies, the margins won't grow as fast as the revenues. But nevertheless, I would expect that we will enjoy much better profit ratio in the offshore area next year only for one thing which is that the some of the back contracts we had this year were in the offshore division, that's the toll on the company's earnings as I said. The overall losses generated by those contracts has been something around 1% of our revenues for the year. And those contracts will be behind us. So we should be back to normal and probably therefore to better level of margins. But we would try to give you a little bit more precise idea once our projectives is completed. That would be by the beginning of next year.

Dominique Paltry - *[unknown]*

Thank you.

Operator

Thank you. The next question comes from [inaudible]. Please state your company name followed by your question.

Jean Luc [inaudible] - *[inaudible]*

[Inaudible] ABC Securities. I have one question on the Capex side. You indicated that you wanted the company to become

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less capital intensive. Could you give us an order of magnitude of the average Capex level you expect for the coming years?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

We have a little bit of Cap Ex which is around 120 million Euros a year. It was much higher at the time of construction of the deep blue. We reached something like 180 million Euros in the completion of the deep blue. We would expect in the coming years our Capex to be normally again around 120. There will be some years in which we will again be big there would be the need for a new major asset. We are not forecasting anything like this for the immediate future. So we should be around 120.

Jean Luc [inaudible] - *[inaudible]*

Thank you.

Operator

Thank you. The next question comes from Mr. Michael Carter. Please state your company name followed by your question.

Michael Carter - *ING*

Good afternoon. This is Michael Carter from ING. I had a couple of questions. You talk about your backlog being about 20 months of work. Is that also let's say the same for both business areas of offshore and onshore? Or looking at it a different way, today, how much of your expectations of next year's revenue do you think you already have in hand and how much do you still need to find between now and during the course of next year?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

You got this detail as an attachment to our press release. On the backlog which is to date at 7.5 billion. Our estimate is that 1.25 will translate into revenues for the last quarter of this year. 3.4 billion Euros will be generated in 2004. And a reminder which is close to 2.9 will be generated in 2005 and further years.

Michael Carter - *ING*

And is there a split next year is that 3.4 between the offshore and the onshore business, is it a split?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Yes. Referring to our press release. You have 1.6 offshore. A little bit less at 1.6 onshore and little bit less for 200 for industries.

Michael Carter - *ING*

I was wondering if you could give us an update on the P-52 contract negotiations?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Ivan, you want to comment on that?

Ivan [unknown] - *Technip - [unknown]*

As I indicated [inaudible] we are in contract negotiations. The contract between [inaudible] and Technip and Petrogas is supposed to notify within 30 days of the date of contract signature that there is no firm official commitment of Petrogas and the fact it is coming to work with the board and try to move the product forward.

Michael Carter - *ING*

I mean, I gather one of the points is rarely has Petrogas gone with a project that's above their budget costs and all the offers on the P-51 and P-52 was substantially above their budget cost even though yours was by far the lowest. Does that give you cause for concern?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

My understanding is that this matter will be settled at a price which is the price we offered or close to it. This price is supposed to be for both what we believe was the original budget of Petrogas. It would not be the first time the client makes budget estimate rather low and ends up with what the market can offer which is the best price it can get on the market being a little bit above his own estimate. What I can tell you is in the

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conclusion of this deal we have not relaxed our requirements compared to our usual standards in terms of margins.

Michael Carter - *ING*

And has the negotiations to get to better price had anything to do with lowering the risk for you in terms of guarantees and so forth?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

No, no. That has been progressing very smoothly and there was no specific issues in this area.

Michael Carter - *ING*

Thank you very much.

Operator

Thank you. The next question comes from Stephane Bensoussan. Please state your company name followed by your question.

Stephane Bensoussan - *[unknown]*

[Inaudible] Two questions. One on the financial expenses. There was an increase excluding the present increase this quarter. Can you explain why, is what the reason?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

The question is about our financial charge which is on the first nine months much lower than last year. But which is a bit higher during several quarters, 9.8 as opposed to 7.5 during the same quarter last year.

Ivan [unknown] - *Technip - [unknown]*

Yes, in fact, we can, the three main reasons are the following. The first is that as you know we improve during the third quarter but at the beginning of September we received advance payment in July and August and in September and that means that we suffer during the first half of the third quarter I would say rather high net debt levels compared with the end of the

quarter. That means is due to the high level of the debt at group level during the third quarter. The second reason is in fact some timing effect which are linked to change because as you know we are minor back on currency change in the financial cost, but it's mainly timing effects from one quarter to another quarter. So during one quarter it can be minus 5 million and the next quarter is plus the same amount. We have only some timing effect. And the last reason that you know that execute last contract the financial profit is we stated as revenue on the contract that means that as you know part of our cash is coming from last contract through GB Buccaneer but the final contract is not as profit in the financial results but as revenue. Which would explain the fact that 2 million difference between second and third quarter.

Stephane Bensoussan - *[unknown]*

Second question, did something special happen to the onshore backlog because if we look at your intake, you show backlogs should have been higher than what you have published that is quite significant amount. Is there a statement or something?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

There are always adjustments between the backlog at the giving of it and the backlog at the end of the period. And the most two important factors that we explained is the order intake on one side and revenues on the other side. You got to have adjustment which are linked either to currency fluctuations or to various adjustments. You can have the scope of the contract in change because the client exercise the option to do this or exercise on option to reduce the scope of the contract in which case the overall value of the contract is reduced. You can have a different [inaudible] offer responsibilities for these reasons. The contracts are not something which are fixed forever at the specific level that can be some adjustments. So each quarter we do process this way. The backlog at the beginning of the period plus ordering the minus revenues, minus various adjustments may lead to a currency fluctuations.

Stephane Bensoussan - *[unknown]*

One last question. You mentioned in your presentation that revenues after [inaudible] 22% of sales. Could you give the number before hedging what is usually the share of the contract negotiated in U.S. dollars.

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Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

I would say it's probably closer to 50% or even more. Two-thirds. Let's say around 60% or two-thirds in our business is expressed in U.S. dollars in the contract.

Operator

The next question comes from Mr. Roy Stewart. Please state your company name followed by your question.

Roy Stewart - *Simmons and Company*

Good afternoon. Roy Stewart with Simmons and Company. And your comments in the near term weakness in West Africa, I was wondering what your diagnosis of issues were and whether there was other regions you are more enthusiastic that may compensate for that or if indeed west Africa is just a timing issue and 05 or 06 could be stronger. Some commentary around that, please.

Ivan [unknown] - *Technip - [unknown]*

Yeah, the market in West Africa has been extremely good in terms of ordering in 2003. So we think that we probably the consequence of it for the intake and we sny 2004 will be less bullion. But we believe the market will recover and will be there for the three or four years without any doubt. And on the other part of the world, I think the goal for Mexico could become a bit more active in 2004. And that's where we expect some potential new spot orders.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Southeast Asia is becoming more active than it has been in the past. North Seas weak in U.K. and strong in Norway.

Roy Stewart - *Simmons and Company*

And just a follow-up for the vessel utilization being for this year and what your expectations for vessel utilization is for next year and into '05?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

This year we were at the level we anticipated it at the beginning of the year. The things can happen. Our estimation today is utilization rates for all vessels of 73%. And we expect something pretty close next year. What we will probably change is inside this 73% achieved this year, we had a low utilization rate for diving vessels in the north sea. It could be better next year. So it's nothing extremely high rate of utilization in the form of Coflexip in the several years we have seen rates above 18%. It's quite manageable on the other end and it's while especially if we compare with the situation of most of our competitors, it's rather satisfactory rate of utilization.

Roy Stewart - *Simmons and Company*

Thank you.

Operator

Thank you. The next question comes from Mr. McPickup. Please state your company name followed by your company name.

James McPickup - *Lehman Brothers*

Yes, it's James McPickup with Lehman Brothers. The SPAR prospects are obviously going slower than what you expected previously and I think restructuring charges are a new one on me. There is a implication of goodwill balance that you are taking in that yard.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

No I don't think so. In fact, yes. When you said the charge we have taken is something new for you, perhaps that we need to explain a little bit what happened. We told you previously that we were going to downsize this yard. And that the work force will be put on the horse, so to speak, and the finished social security system would put them on their system so that the cost for the company would be rather limited. In fact, what we have is a cost, the cost of having a yard with a minimum staff being there with no business and the cost was estimated and given to you. What happened is that since we were going to do this major downsizing of the yard, we took also the opportunity to let go of a few people which were pretty close to retirement

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age. This is the reason why we have the additional charge, 5 million. That settles the problem for a long time.

James McPickup - *Lehman Brothers*

Thank you very much.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Excuse me, what is a concern, may I remind you that goodwill, it has been affected for the activity so ti don't anticipate any major difficulty trend when we make the repairment.

James McPickup - *Lehman Brothers*

Thanks.

Operator

Thank you. Next question comes from Mr. Joe Mares. State your company name.

Joe Mares - *Morgan Stanley*

It's Joe Mares at Morgan Stanley. I must admit I was a little confused given the accommodation of what you are saying in terms of the strong cash flow generation of the company this year and the coming years and then also the capital increase of last evening which is available to the employees of 3.7%. I was wondering if you would consider going out and basically repurchasing those shares to stop the dilution if you will of the existing shareholders.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

I spoken about massive cash flow. We have a cash flow which is satisfactory. But our first object is to continue to reduce our debt so repurchasing stock on the market is not on the agenda today. Perhaps we can do it in the future as you know, we have a revolving authorization by the shareholders assembly to buy back our stock. We did use it in the past and might use it in the future. We have not taken the decision to match this issue in terms of the which is 3.7% of our stock to max it by purchases on the market.

Joe Mares - *Morgan Stanley*

Thank you.

Operator

Thank you. The next question comes from Mr. Peter Testa. State your company name followed by your question.

Peter Testa - *One Investments*

Peter Testa from One Investments. One, just to make sure you said the 1% impact from the contracts is [inaudible] percentage of sales for the oil and gas division or the group? The second one is, you refer to the special items in an earlier question asked the amount and I'm not sure you gave impact between phasing of the specializes between Q3 and Q4, but since you mentioned it I was hoping you might be able to tell us what it was. And then the third one was just to make clear on your guidance for net profit, were you saying that basically your earnings per share of net profit will be flat essentially because of the issues on the tax rate? Did I understand that correctly?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Okay, let me, I hope I won't forget one question. On the first one, the [inaudible] we made on the few difficult contracts we had this year, we mentioned an order of magnitude of about 1% of the consolidated revenues of the companies or let's say something of 60 million Euros. That's for the whole company but the bigger portion that it is on these two difficult offshore contracts we had under management this year. The second question?

Peter Testa - *One Investments*

The phasing of the special items. You mentioned things you expected in Q4 came in Q3. You obviously analyzed it. I was curious if you could given us the amount the saving.

Ivan [unknown] - *Technip - [unknown]*

Between 6 and 7 million.

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Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Yes.

Peter Testa - *One Investments*

Okay. Third question was on the net profit guidance.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

The net profit guidance. Let me try to be clear if I was not clear in my comments. We cannot maintain the guidance given at the beginning of the year of a jump of 15% of net income for the full year. Because mainly of this higher tax rate which is something we have to suffer for the whole year. Our best estimate today is varied moderate progression in net income for the full year.

Peter Testa - *One Investments*

Fine, okay. Then just two other questions. One was on this longer topic of the Euro, you mentioned in your presentation that the flexibility of using your worldwide network which is a good advantage you have. I was wondering if you could give some idea between that and any pricing power that you may have or flexibility in pricing you referred to in an earlier answer the extent which you can move your value added work and the extent of pricing you can offset the Euro change over time.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Our pricing power is [inaudible] when you are in front which is always exerting pressure on prices and also on the contract or terms. What I would say is that most of the time in our pricing we try to let's say suggest to our clients it would be nice if they could in the split of currencies so that those currencies would match the structure of our costs. And in a number of cases it works. When it doesn't work, we have to comply with the client which wants to have bids made in 100% in Euros or in dollars. We have to take our risks at the time we make the bidding. And if possible, add it possibly to a re-opening if there is a sharp change in the value of this currency. This is the Euro which is into dollars at the time of the final conclusion of the contract. So that's about everything we can do. And, of course, once the contract is officially awarded to us, we immediately edge our remaining exposure to the currency. The valuation in currencies

have no maximum impact on the profitability of our contracts once the contract is signed because we have this very careful hedging policy. The grey period, the difficult period is when we are submitting an offer and we are waiting for the decision of the client. There is a major shift in currencies during this bid of time, we might be in a difficult position.

Peter Testa - *One Investments*

On the flexibility to move united value around once this is locked in to try and improve the situation on any moves that may have happened during the bidding phase?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Oh, yes. In fact, during the bidding in most of those contracts, a big portion is made of material that we learned is purchased from outside. So the flexibility we have is that once the contract is signed, it varies, for instance, a sharp decline in the value of the U.S. dollar we will try to push our procurement to have more materially negotiations U.S. or other U.S. [inaudible] currencies or linked...

Peter Testa - *One Investments*

I'm thinking more of the engineering. It's a long part of the [inaudible] map of the world where you show the engineering network you have and you talk about specifically mentioned on page 13 the corporate with mitigated exposure to the Euro on the engineering side the extent you can protect the value added margin on the engineering between the centers in Houston to other places mentioned.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Yes. We had some flexibility in this area. As long as the contract, we have all flexibilities as long as we have the procurement stage and we built our execution strategy. We can decide when we do very often that a big portion of the detailed engineering will be done [inaudible] for instance. Once the contract is signed and the client has signed the contract based on the execution strategy proposed to him during the bidding phase, it's much more difficult to say to the client, sorry, we changed our minds. We are executing the contract you will no longer be based in Paris. We will be based in Kuala Lumpur. Because they have to agree on this kind of changes. We have some flexibility but we

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better use this flexibility in the bidding stage rather than after the signature of the contract.

Peter Testa - *One Investments*

And one last short question. On the sticking about your Brazil Raja facility, can you give views on the utilization in '04 and the extent to which your success in the P-51 and 52 contracts are important for the utilization for 04 and '05?

Ivan [unknown] - *Technip - [unknown]*

The manufacturing unit will be reasonably busy in 2004. Nevertheless, the impact of P-52 and maybe P-51 may not be [INAUDIBLE] 5 and 6 for the order of rather than Shoreline for P-52 and P51 have been put in place yet.

Peter Testa - *One Investments*

Thank you very much.

Operator

Next question comes from Mr. Duncan Goodwin. State your company name followed by your question.

Duncan Goodwin - *Merrill Lynch*

Good afternoon. Duncan Goodwin from Merrill Lynch. I have just got one question with regard to the slide on page 15. Development of less capital intensive. I presume this is something that's also been driving the company for sometime rather than a new approach. I wondered if the changes you will view on non-core asset disposals and whether there will be more capital disposals to transfer to reduce this number?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, I think in terms of capital disposals, we have made the biggest profit of our program. What remains left is will it be big numbers. With one exception which is the disposal of the office building in Paris which we sold at the beginning of this year for 100 million Euros but 90% of the price, which is to say 90 million will be actually [inaudible] at the end of this year. Apart from that, we will continue to do some cleaning and get rid of smaller offices which don't bring much value to the company.

Beyond that it might be relatively important in terms of number of people. It won't make a big difference on the bottom line. Nevertheless, we will continue to reduce the capital employed by continuing those asset sales even if they are smaller than in the past couple of years and also by being very straight on the capital spending. And also there is the change, the shift in the business mix of the company. The SURF business will continue to grow, I hope so. And the SURF business which is mostly a capital but for the floaters business of the floaters facilities in platforms, basically we intend to use in a big number of assurances, fixed asset blocked by [inaudible] when we partner with Korean yards for the construction, we are basically using this yard so we don't have to generate any additional capital spending in our company.

Operator

The next question comes from Mr. Lionel Sharmadon. Please state your company name followed by your question.

Lionel Sharmadon - *Morgan Stanley*

Good afternoon. I am Lionel Sharmadon from Morgan Stanley. I have a few questions. First of all I was wondering if we should still expect a growth in the onshore margins in the fourth quarter as you previously indicated. Secondly...

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

The answer is yes.

Lionel Sharmadon - *Morgan Stanley*

Okay. And to what extent shall we expect the improvement, can you give me a little bit of color on that?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Things in this area go always in the very incremental way. Don't expect to have miracles, but as the progress rolls on contracts started last year, we will be at the point when we start recognizing margin know that we have a famous rule on this which we don't have a nice margin until the project is completed 25% and then we take the square number of the progress. So we are going now in the period of time on which most of those contracts, we are starting to recognize much higher margins

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while the trend in revenues will slow down a little bit. So we are offering to generate better margins in 2004, 2005 and the beginning of this improvement to place in the third quarter it should go on during the fourth quarter. Don't ask me to give you a precise number because you will kill me if we are not right on this number.

Lionel Sharmadon - *Morgan Stanley*

Okay. Secondly, I was wondering if you could be a little more specific in terms of the large new orders you said you were expecting by year end and I was wondering in particular that would be mainly onshore or mainly offshore?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, being in the contracting industry, we were very superstitious. So it's better not to talk about projects which are not really in our hands. Nevertheless, we are expecting a major project onshore in western Europe which might be what it was before year end. We were expecting P-52 project to also be rather hopefully before year end. The question you are asking is the most difficult because we were in November. The next update is 31st December and even if on some contracts we believe we are at the end of the process, the final decision is in the hands of the clients. So the client decides to [inaudible] the contract on the 28th of December it will be in our backlog. Decide to do it on the third of January, it won't be there. But we have those contracts which are in good shape and a few others. There also contracts which are in our so-called pre-backlog which might welcome into force before the end of this year. There is an article in the [inaudible] in Iran which announced 217 million Euros which was signed at the beginning of this year which will probably come into force before year end. And a few others.

Lionel Sharmadon - *Morgan Stanley*

Okay. And last question, I'm aware you haven't given any guidance on 2004 yet. Can you just explain the level at which you see your tax rate going forward roughly to which level you expect to be able to bring it down?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, our target is to go back to I would say the normal level, the one we experienced in the past year which was about 35%. There are good reasons to think that we will be able to be closer to this 35% in 2004. First, if we no longer generate big losses in one specific country but we -- if we are more or less profitable in all places we shall be closer to 35%. We also in the process of accelerating our efforts of tax optimization management by merging the former Coflexip [inaudible] in various countries so that if one country the offshore business generating profits while the onshore business generate losses, there would be offset. This is something we couldn't do up to now because there were still two person [inaudible] in Coflexip. Now that we have two companies will be able to do this job and the offshoot of things which are managed by the [inaudible] and believes us to believe we should be able in 2004 to be much closer to 35%.

Lionel Sharmadon - *Morgan Stanley*

Okay. Thank you.

Operator

Thank you. The next question comes from Mr. Andrew Vissock. Please state your company name followed by your question.

Andrew Vissock - *Williams DeBroe*

Hello, this is Andrew Vissock from Williams DeBroe. Have I two questions. One is a follow-up question on P-52. I understand that the Brazilian supreme court has suspended all contracts in front of Petrobras for the moment because of dispute with a local suppliers. I want to know if you thought it was likely this contract will be awarded this year or if we should really be thinking of sometime next year? And my second question is on the backlog. Given the backlog you loosened you've detailed in today's release and given the level of pre-backlog. Are you confident that your revenues next year will get close to this year's levels, or should we be thinking of a small contraction?

Ivan [unknown] - *Technip - [unknown]*

On P-52, information during the meeting that there was a ruling by the Brazilian supreme court, but they are saying [inaudible] I think just so it's quick and we have to look into it. But I cannot give you more than that at the moment.

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Andrew Vissock - *Williams DeBroe*

That's fine.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

O.K. on the backlog. Just come to reason. Same period last year saw the end of September 2002, we had the backlog of 6 billion of which 2.9 was supposed to translate into revenues in 2003. So the revenues which were were firmly established given this backlog for the flowing year were close to 3 million 2965. Why revenues for 2003 will be revenue in excess of 4.5. This year, what is supposed to be generated in 2004 given our backlog at the end of September is 3.4 billion. So some 12% higher than last year. So I believe we are in the better position than last year to reach our targets which will be again progress in revenues next year.

Andrew Vissock - *Williams DeBroe*

Thank you. That's very clear.

Operator

The next question comes from Mr. Thomas Martin. Please state your company name followed by a question.

Thomas Martin - *[unknown]*

You answered most of my questions. I'm afraid I want to circle back on one issue. Some of the positive items you spoke about earlier on, you said around 6 to 7 million Euros was the total. I want to clarify, is that the amount that you believe will be included as kind of one of the positives in Q4? Or is that the amount that came through the accounts in Q3?

Ivan [unknown] - *Technip - [unknown]*

No. I mentioned the year between 5 and 7 million Euros. It's not one of. It's only writing from some commercial with giant we believe that this figure between 5 and 7 could increase the earning of the Q4 and it was in our forecast for the full year in line with our guidance. So it's firmly a issue that means that this earning has been recognized in the Q3 where was we believe that it would have been recognized in Q4.

Thomas Martin - *[unknown]*

So those items were recognized in Q3 when you thought they were previously coming in Q4, is that correct?

Ivan [unknown] - *Technip - [unknown]*

Exactly.

Thomas Martin - *[unknown]*

Nothing else to come on that same front in Q4 at this time?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

No.

Thomas Martin - *[unknown]*

Okay, perfect. Thank you very much.

Operator

Thank you. The next question comes from Mr. Charles Lesser. State your company name followed by your question.

Charles Lesser - *UBS*

This is Charles Lesser at UBS. You covered most of the things I want to ask. Could I ask for a quick update on the status of the [inaudible] contract. That's it, thanks.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

I'm awfully sorry. Your voice was not clear on the transmission. Could you repeat that question?

Charles Lesser - *UBS*

Could I have an update on the status of the Cog Island contract in Iran. My pronunciation is not very good. KHAR.

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Ivan [unknown] - *Technip - [unknown]*

The status on the Cog Island contract.

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

The status at the moments in this contract was signed at the beginning of this year and it was in February or March, something like this. And it's a contract for the construction of 500,000 pounds capacity on the Cog Island in Iran. For weeks as usual there is a time line between the nature of the contract and its coming into force. Now, the progress in the coming into force is such that we do believe the contract would come into force before the end of this year.

Charles Lesser - *UBS*

That's great. Thanks, very much.

Operator

Thank you. You have a follow-up question from Ms. Dominique Paltry.

Dominique Paltry - *[unknown]*

Yes. Good afternoon, once again. I have a question on the working capital evolution. I know it's always a difficult item to predict, what is your best estimate of the evolution of working capital requirement for the next two years?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Oh, my God! Oh, my God! This is a tough one. What can we say? It's very much depends on the shift of our mix of business. As we said before, most, well, you can say that generously speaking in the offshore business since we were working with the majors of very [inaudible] so the lack cash so they like very much to contractors to finance their projects. So when we work in the offshore business, if we can achieve something critical to a neutral cash flow position and contracts we are in good shape and we are really in good shape because there is no reason why we should question the ability of those people to pay for their contracts. There is no reason to get 10% advance payments before starting to execute the contract. Most of the time the cash flow will be neutral. When we deal in the onshore and

downstream division, it's a bit different and you know very well the story because you follow the company for a long time. Most of the time those contracts are structured in such a way that there is a positive cash flow most of the time during the execution of the contract. If we were going to be more and more offshore or more and more onshore, the situation of our working capital will change accordingly. But that's probably the best estimation I can give you about what could be our working capital in the next two years.

Dominique Paltry - *[unknown]*

No, my question was with referring more to the management you have on the working capital. That any specific discipline that you want to implement or was more related to that?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, the discipline we have is that on all contracts we are trying to get the most favorable terms of payment. And even on offshore contracts with the well-known majors, we struggle in order to get something better than neutral cash flows. That's the only thing. And we will not relax the discipline in this area.

Dominique Paltry - *[unknown]*

Okay, thanks.

Operator

Thank you, we have a follow-up question from Mr. Stephane Bensoussan.

Stephane Bensoussan - *[unknown]*

Yes. One question on LNG. Could you update us on the trend 6 for Nigeria and the project in the U.N.?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Okay. On the trend 6 in Nigeria, we were expecting it at the beginning of this year it would be taken by the suppliers before year end. Now, year end is pretty close. It's very doubtful that the decision will be taken before year end. It will most probably

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a decision taken next year, probably early next year but not before year end. Your second question?

Stephane Bensoussan - *[unknown]*

Project in U.N..

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

LNG in Iran? We are very early stage, very early stage. There will be no big announcement in the near future.

Stephane Bensoussan - *[unknown]*

The same kind of question on the, I read the refining project in Vietnam was delayed by 6 months. Could you confirm that?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, Vietnam is Vietnam. We have been in the final negotiation stage for now 18 months. It's time we were question about the Vietnam our own story is that we were in final negotiation stage and the contract will be signed next month. Unfortunately, this has been pending for 18 months now so we will take between us and a decision that starting from now on we will no longer talk about it. When we come with it we come with it. Seriously speaking there has been a lot of changes. The project was started as a joint Russian, Vietnamese project. Then the Russian partner decided to pull out so that changed the picture for the Vietnamese. They also decided to extend the scope of the project, very substantial way because there were a number of facilities [inaudible] that decided to go to some other contractors and at the end of the day they decided that since they are the best contractor in front of them which is Technip which they will be that better position to give us the full scope. So as you can imagine, that increased the cost of the project by several hundred million dollars so that leads to a new round of negotiations in which we are engaged today. While our feeling is that this decision should be taken somewhere next year, I will be unable to predict whether it will be during the first half or second half. We have the feeling we are now not too far from the end of this long wait.

Stephane Bensoussan - *[unknown]*

And lastly, on the [inaudible] contract in South Africa, should it instruct you to begin early in 2004?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, this is decision is not in our hands. It's in the hands of the new owner again. Our understanding is that this project, even if it may control has changed. This contract is highly strategic for the new group so that well from our conversations with them we have the feeling that if we put it into force very shortly. We were waiting for the completion of the deal with they so that the official confirmation can be given. We expect it to be confirmed in the coming weeks or month if it's not before year end, it will be at the beginning of next year.

Stephane Bensoussan - *[unknown]*

Thank you.

Operator

Thank you. The next question comes from Mr. [inaudible] please state your company name followed by your question.

Alla Toboussa - *First Bank/Amsterdam*

Good afternoon. This is Alla Toboussa from First Bank in Amsterdam. First of all I want to go back to the offshore business and the importance of the backlog. Many companies are complaining of the little activity which is happening in the offshore market currently while your third quarter sales figure was quite strong. Do you feel that in let's say do you earn the stream of smaller projects which you execute as you get them during the quarter that there is a decline there and you mainly profiting from the high order that you currently have? How do you see that? And let's say at the beginning of this year how strong was the order book which you execute this year then for the offshore segment on its own?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Well, you know, in our business when the companies having difficulties with their order book or backlog, it's very tempting to say it's not me. It's the market which was bad. So our feeling

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of course we are working on the story and the way of looking at the market, but our vision is the market in 2003 in terms of ordering intake for the offshore business has been extremely active. Now, yes, there is a shift which is taken place a few years ago, especially with hike of prices which is that the oil companies tend to push more. The a lotment of the Capex and the expiration Capex. Why spend money on exploration when you have a lot of opportunities to beef up reserves which have been intensified in the past. So it's true that for the exploring companies which are linked to exploration points which are the sites companies at times are difficult today why for the companies like ourselves or [inaudible] or a few others which are mainly executing the allotment projects, it is good times.

Alla Toboussa - *First Bank/Amsterdam*

And can you say what you felt on a person that the backlog at the beginning of '03 was 2.965 million for the total group to be executed in '03, what was the offshore part of that?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

One year ago in September 2002, the backlog for the offshore branch was 1.9 billion Euro. Out of that, what was expected to be executed in 2003 was 1.1.

Alla Toboussa - *First Bank/Amsterdam*

So you had more or less half your orders there for the year in '03?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

Exactly.

Alla Toboussa - *First Bank/Amsterdam*

Clear. One further question, [inaudible] you felt that all three have left the Finnish yards at the end of December and that's on time. How many will be already delivered to the final clients and also having finished the part of the work which will be done in the U.S. How much will we transfer to the client and paid by the client this year and how many of the spots will be made in 2004?

Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

At the moment in Finland we have opening the Mad Dog project which we are doing both in trust. So the progress will be handed over to the client in early 2004 leaving the Finnish yard. The question mark, my understanding of your question is when do you give it to the clients so that you paid? The reality is that we are doing it by installments. We made the progress. We don't , it would be a terrible situation for companies like ours, like us, to do such big projects and to wait until we are ready to give the first sent by decline. We are doing milestones of payments so that the debt that which the thing is delivered to the client is not a date of which [inaudible] device. Of course, the closer we come to the completion of the project, the more relaxed we are in terms of recognizing the margin. But in terms of revenues, revenues are spread on the execution of the project.

Alla Toboussa - *First Bank/Amsterdam*

Okay. I must say, I understood that. When let's say the three projects, when will they be finally completed and what how many ended this year and how many in 2004?

Ivan [unknown] - *Technip - [unknown]*

I continue on this. The project is mid-2003 the BP oil project in Finland about 6 weeks, eight weeks ago. The trust has been in Corpus Christi and GMS and the two pieces will be connected and welded together around year end which means the trust will be handed over to the client in early 2004 as well.

Alla Toboussa - *First Bank/Amsterdam*

Okay. Thank you.

Operator

The next question comes from Jean Luc [inaudible]. Please state your company name followed by your question.

Jean Luc [inaudible] - *[inaudible]*

[Inaudible] given energy for importation terminal, make sense, my understanding is that three port authorization for [inaudible] can you update us on that?

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Daniel Valot - *Technip - Chairman of the Supervisory Board, Chief Executive Officer*

If you are asking questions on that when we have for the energy terminal we said we had the feeling that this was one of the best positions in terms of going through the permitting process in the U.S. and that we were expecting this project if this facility was completed. To get into an execution mode, probably by the beginning of 2004, I don't know if we have more recent news than that.

Ivan [unknown] - *Technip - [unknown]*

I think that the green light [inaudible] in February of 2004 and we will be by that date we decide to go on.

Jean Luc [inaudible] - *[inaudible]*

Thank you.

Operator

Thank you. Once again, if you would like to ask a question, please press a star followed by the 1 on your telephone. If you wish to cancel this request, please press the star followed by the 2. There are no more questions sir, please continue.

David Alexander - *Technip - Investor Relations*

This concludes our conference call. We would like to thank all of you who participated. Thank you and good-bye.

Operator

Thank you for participation in today's conference call. We would like to clarify the 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 plus 44-208-797-2499 using the confirmation code 949.

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