RICE UNIVERSITY

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Daniel Valot

Chairman & Chief Executive Officer

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I. TECHNIP

II. THE OIL AND GAS PICTURE: A SNAPSHOT

III. FOR THE E&C INDUSTRY, THE FUTURE LOOKS BRIGHT

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V. BRINGING BACK SOME COMMON SENSE?

I. TECHNIP

ENR RANKING FOR INDUSTRIAL/PETROLEUM OVERSEAS ACTIVITY

in Million US $ (2003)

CONTRACTOR RANKINGS		2003 INTERNATIONAL REVENUE OF INDUSTRIAL / PETROLEUM	OVERSEAS INDUSTRIAL / PETROLEUM IN % OF TOTAL INTERNATIONAL REVENUE
1	**TECHNIP**	**5,181**	**96%**
2	BECHTEL	2,588	39%
3	FLUOR	2,168	71%
4	JGC	2,098	100%
5	KBR	2,018	31%
6	SNAMPROGETTI	1,952	100%
7	FOSTER WHEELER	995	44%
8	JACOBS	950	83%
9	HYUNDAI E&C	768	48%
10	TOYO ENGINEERING	758	66%

Source: Engineering News Record 2004

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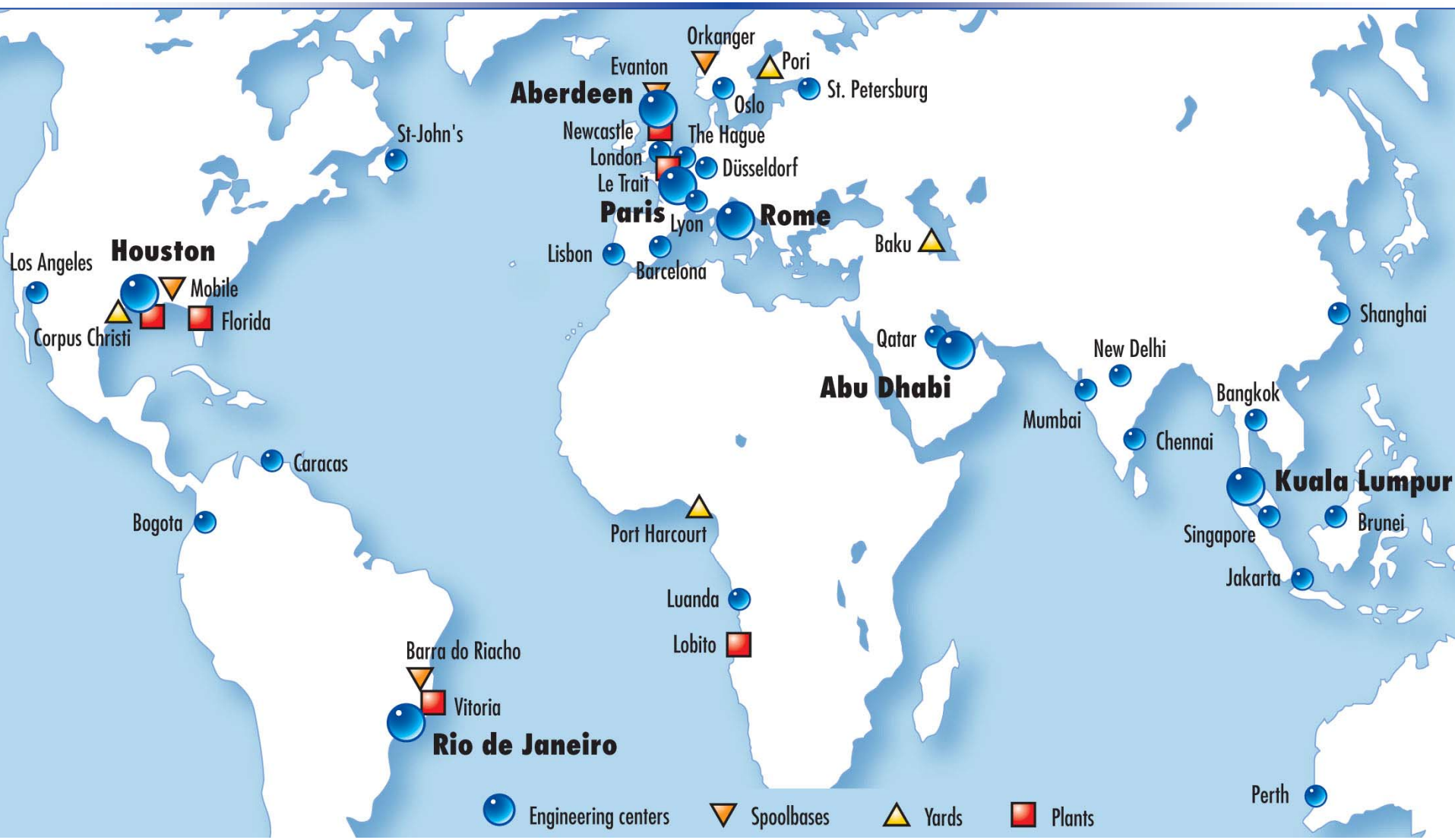
GLOBAL NETWORK OF ENGINEERING CENTERS, YARDS & PLANTS



Technip in the world: 19,000 people

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TECHNIP 2003 KEY FIGURES

ORDER INTAKE	6,582 M€	+ 19 %	
BACKLOG AT YEAR END	7,180 M€	+ 24 %	
REVENUES	4,711 M€	+ 6 %	
INCOME* FROM OPERATIONS (EBITA)	228 M€	+ 11 %	
PROFIT* BEFORE TAX	176 M€	+ 31 %	
PRE-TAX RETURN* ON EQUITY	9.5 %	vs 6.7 %	(2002)

A significant set of achievements
despite the sharp decline of the US dollar

** Before Goodwill Amortization*

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DEEP BLUE & THE NANSEN SPAR

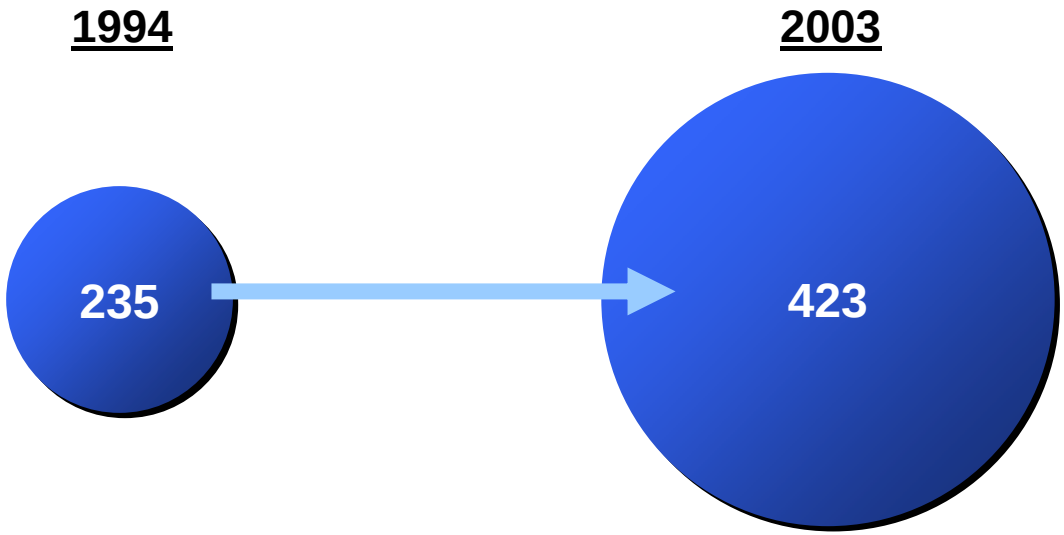
II. THE OIL AND GAS PICTURE: A SNAPSHOT

GROWING IMBALANCE BETWEEN OIL AND E&C COMPANIES

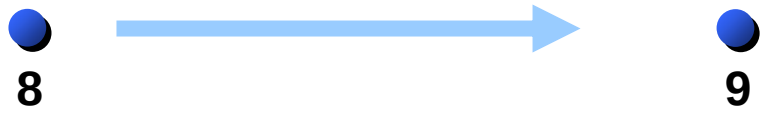
SHAREHOLDERS' EQUITY

USD in Billions

A) 10 largest oil companies



B) 10 largest E&C companies



Source: Bloomberg

SIZE OF PROJECTS:

GROWING FASTER THAN E&C COMPANIES

At Technip, the 5 largest contracts in backlog (Group share) amounted to:

- **10 years ago : € 1.6 Billion**
- **5 years ago : € 2.1 Billion**
- **Today : € 2.9 Billion**

➔ **Average size of the 5 largest contracts is now close to €600m (~$725m) per contract: equivalent to about 1/3 of the Group's equity**

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III. FOR THE E&C INDUSTRY, THE FUTURE LOOKS BRIGHT

FUTURE LOOKS BRIGHT FOR NEW PROJECTS

Oil and gas companies have started to spend more

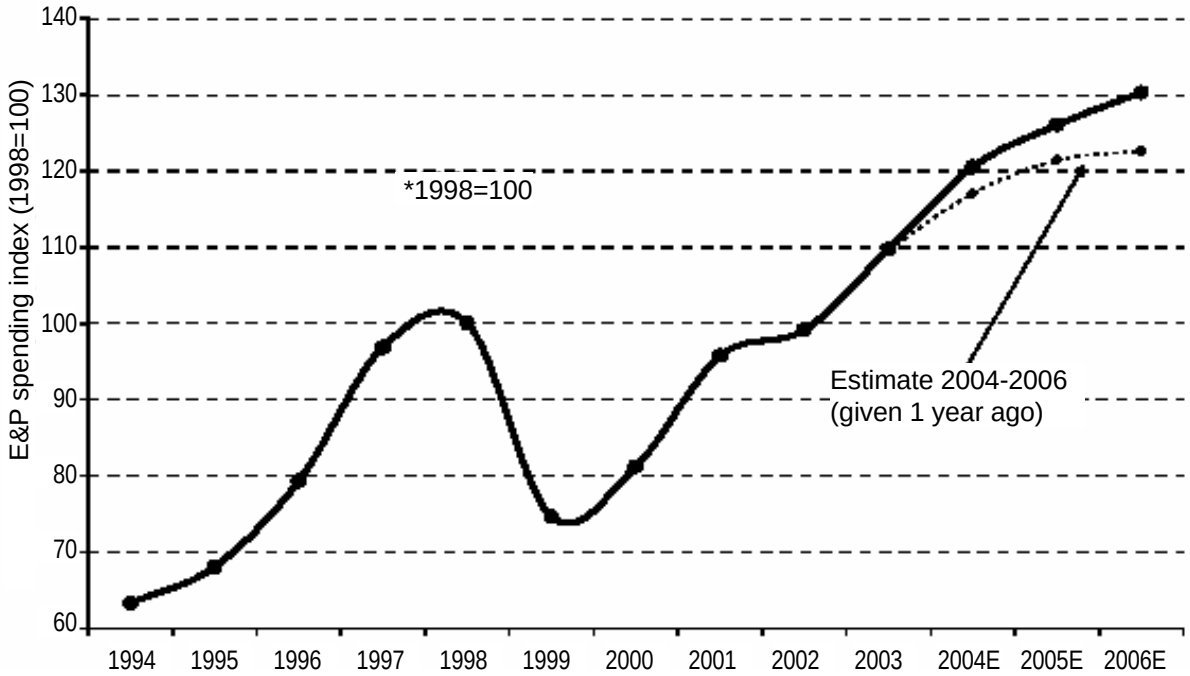
Curent and previous E&P growth estimates

%	2002 survey	2003 survey	2004 survey
2003	6	4	11
2004E	3	7	10
2005E	2	4	5
2006E	n.a.	1	3
CAGR (2004-2006)	**n.a.**	**4.0**	**5.9**

Source: Enskilda Securities

2004 E&P expected spending to exceed 1998 levels by 21%

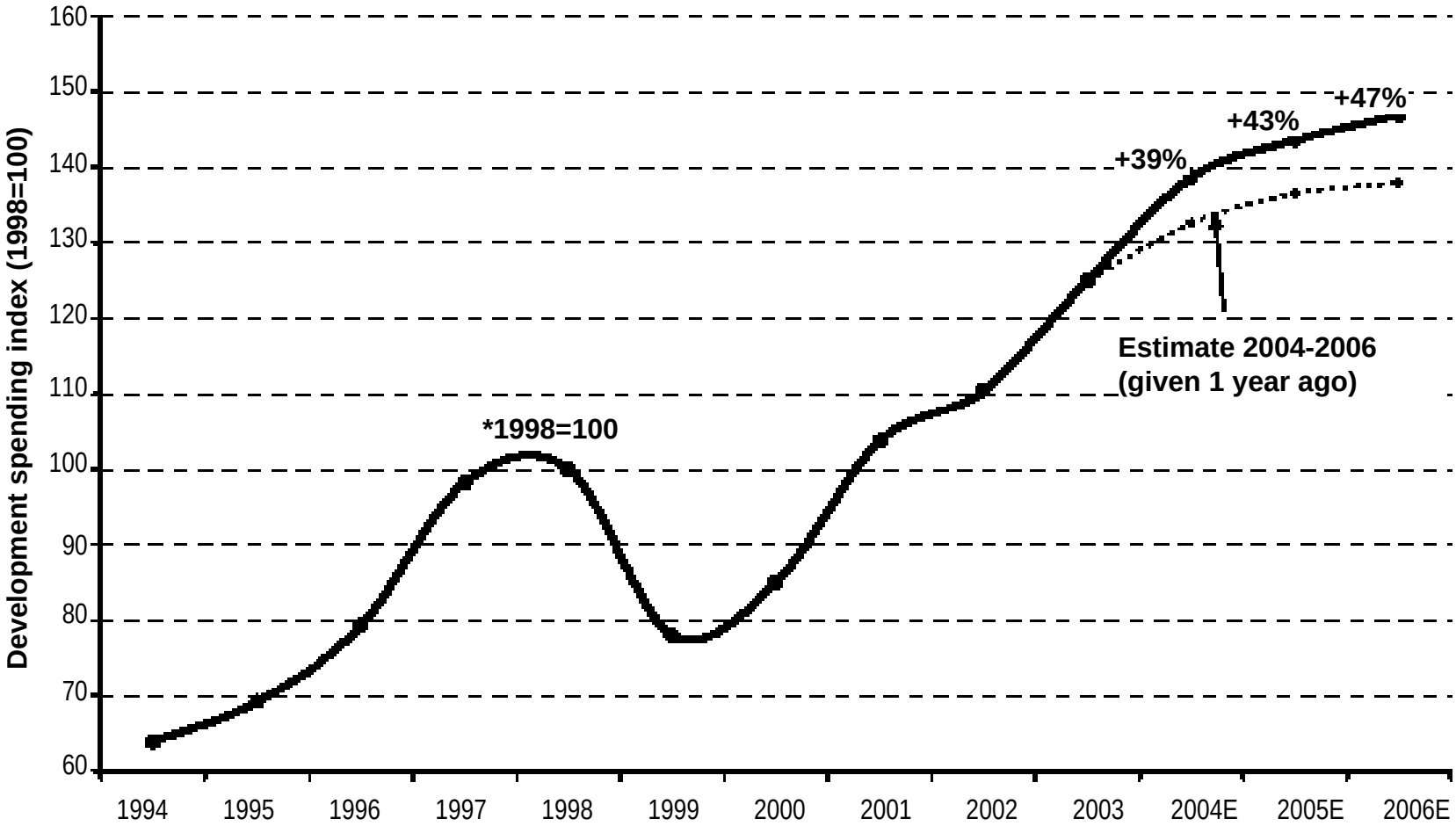
E&P spending survey relative to 1998: 2004 vs. 2003



Source: Enskilda Securities

FUTURE LOOKS BRIGHT FOR DEVELOPMENT CAPEX …

Development spending expectations have been revised upwards



Source: Enskilda Securities

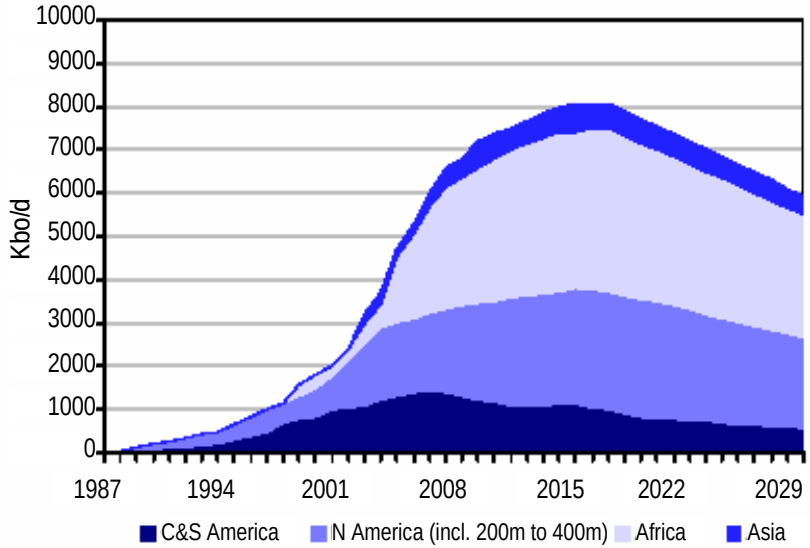
… AND MORE SPECIFICALLY FOR 2 MARKETS:

1 - DEEPWATER DEVELOPMENT

Major growth expected in coming years, focused on:

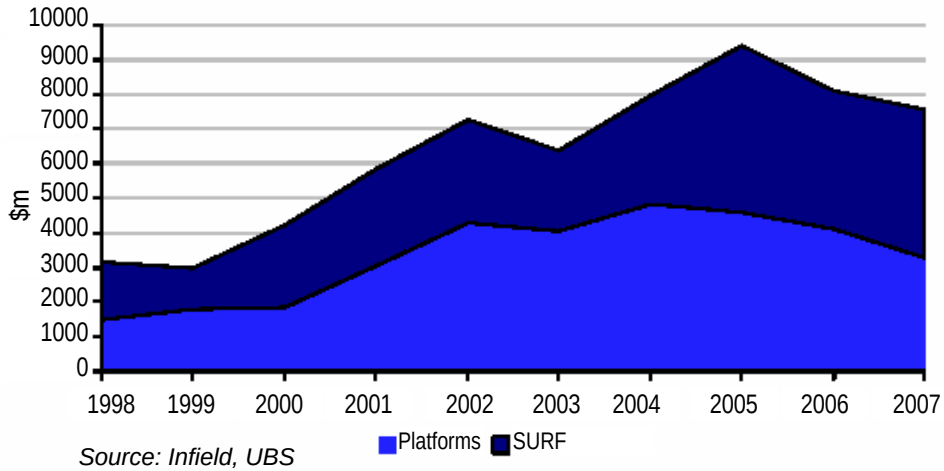
- **West Africa**
- **SURF (Subsea Umbilicals, Risers and Flowlines)**

Growth in deepwater production 1987-2029E



Source: Douglas Westwood presentation 12 Feb. 04

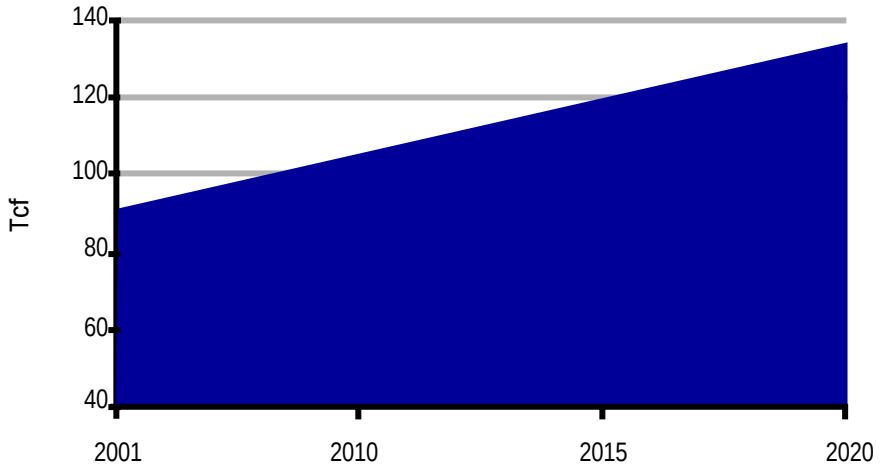
Global deepwater capex by estimated year of award



Source: Infield, UBS

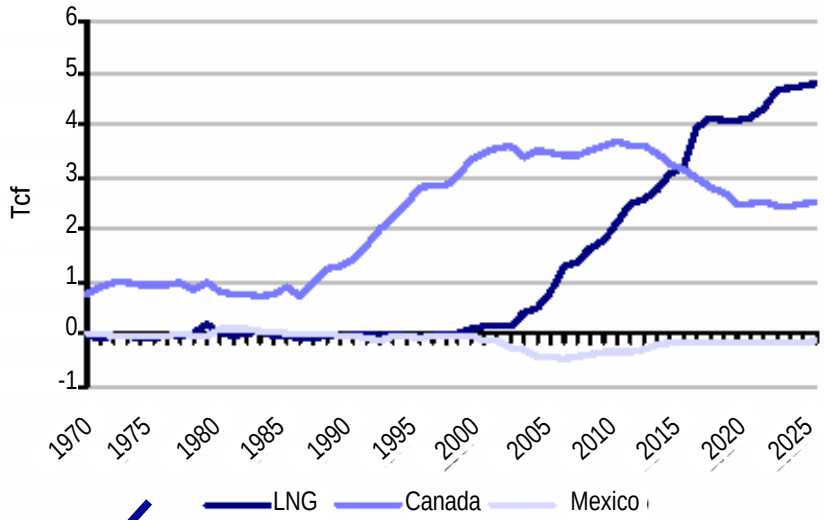
2 - … AND MONETIZATION OF STRANDED GAS RESERVES (LNG, GTL)

Worldwide forecast gas demand, 2001-2020



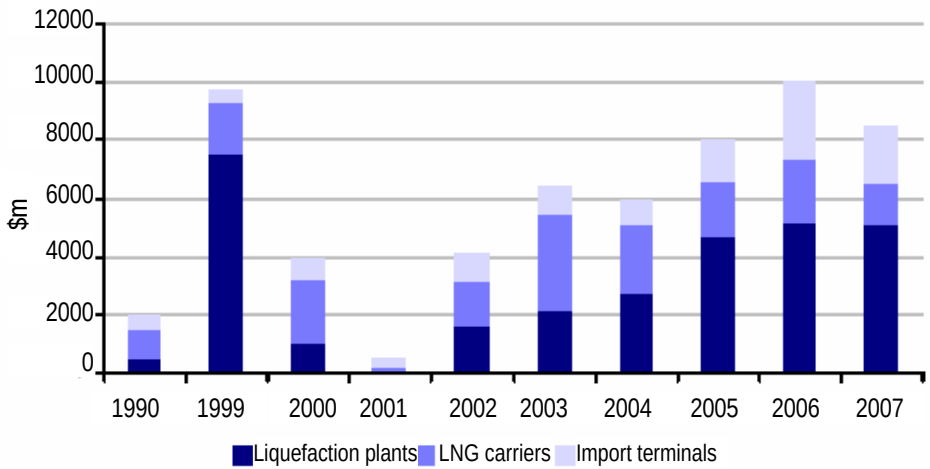
Source: EIA

US gas imports, 1970-2025E



Source: EIA

LNG construction capex, 1998-2007E

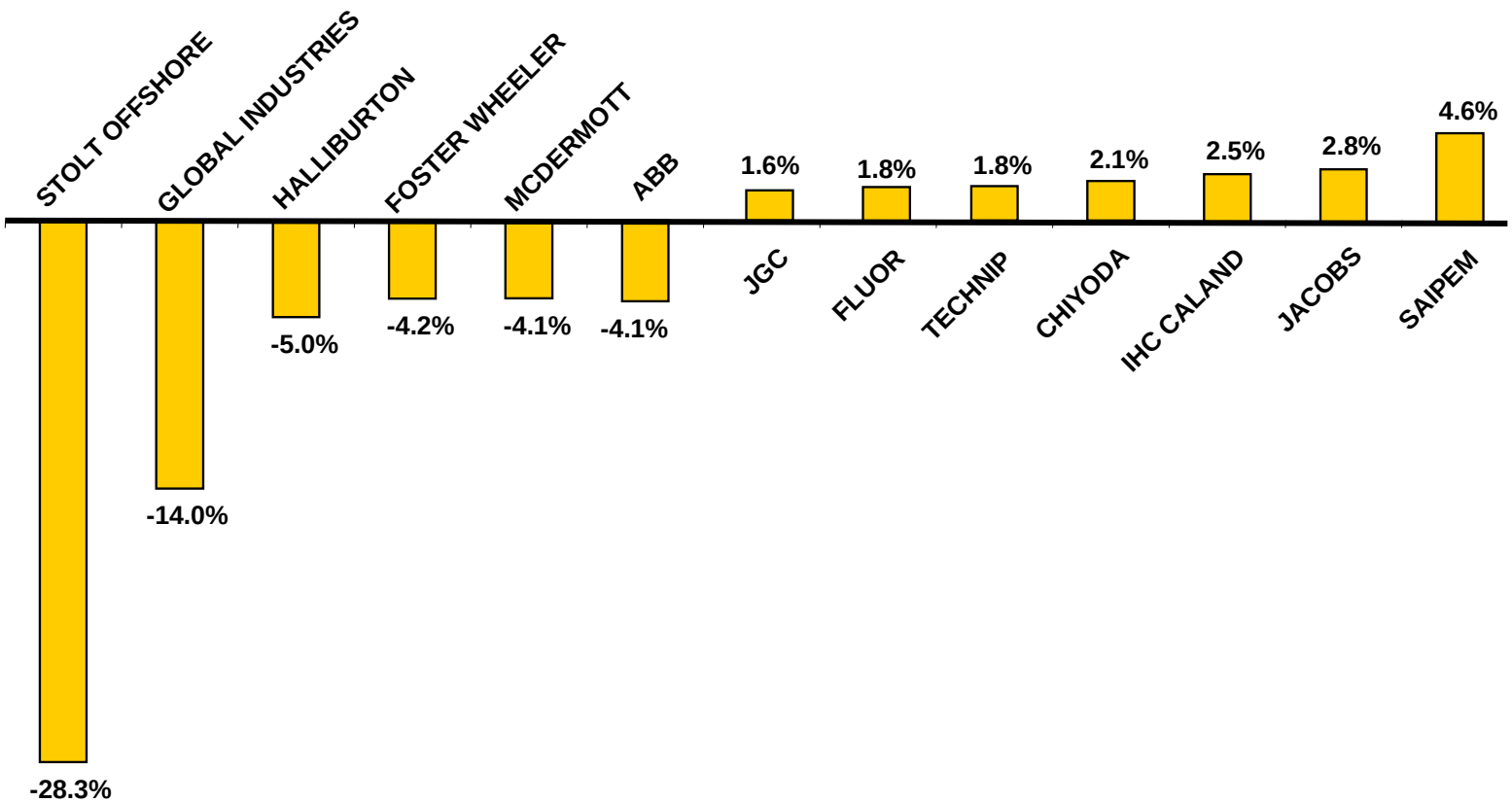


Source: Douglas Westwood

IV. BUT TODAY IS TOUGH

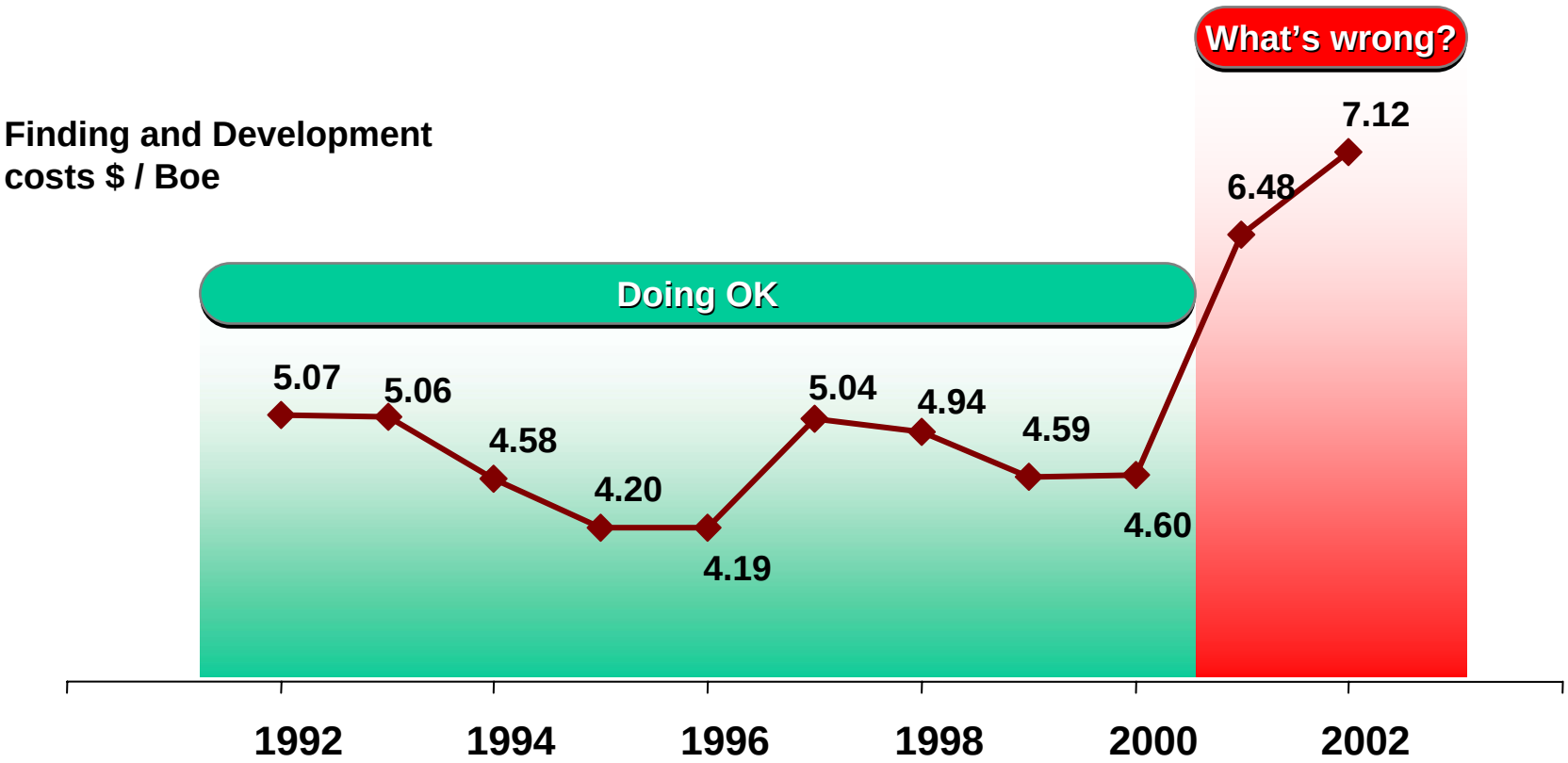
TODAY IS TOUGH FOR THE E&C INDUSTRY

Net Income (US GAAP) / Revenues of the main E&C companies 2003



Source : Bloomberg

WHILE THE OIL&GAS COMPANIES ARE STRUGGLING WITH RISING F&D COSTS



Source: ABN Amro

WHY ARE F&D COSTS RISING?

Unavoidable factors

- More complex projects (deepwater, frontier areas, technological challenges)
- Ever increasing local content requirements by host countries
- Higher Euro impacting Euro-based costs of projects
- Sharp increase (2003-2004) in raw material and freight costs

Manageable factors

- Major inefficiencies created by the current working relationship between clients and their contractors

  These inefficiencies have a significant impact on the project costs

  They basically derive from a lack of common sense in contracting

THE HURDLE RATE RELIGION

- **Why put a contractual completion time of, say, 36 months (with huge penalties for delay) when 40 months are technically needed?**

- **Because the bedrock faith in NPV of cash flows makes some people <u>believe</u> that a project will have a much higher return if it is completed in, say, December 2005 than if it is finished in March 2006**

➔ **Most of the time, the end result will be: rushed engineering, minimal testing, unexpected mishaps in construction/installation, leading to longer delays and cost overruns**

THE LUMP-SUM DOGMA

- **Lump-sum contracting (LSTKI, EPCI) is appropriate as long as contractors are able to properly estimate costs and risks**

- **Lump-sum contracting in unchartered territories (new technologies for instance) is a sure recipe for disaster**

➔

Most competent contractors will raise contingencies in their pricing to cover higher than usual risks.

Chances are that the winner (lowest price) will be a not too competent contractor, and the execution of the project will become a nightmare for the contractor and for the owner

THE BIDDER SELECTION GAME

- Some owners select the winning bidder based on price only, and pay minimal attention to technical skills (track record, safety achievements, project management capabilities)

- Some others take those technical factors into account, by charging various and sometimes mysterious “loads” on the prices offered by the bidders

➔

- The current selection process opens the gate to various tactics and games, the most common one being the price dumping (followed most of the time by big fights on change orders and claims)
- How many times does “lowest price at bidding” translate into lowest price at completion?

THE RE-BIDDING FASHION

- **Some owners believe the only winning formula is to make a second, and why not, a third bidding to get the best price for their projects**

- **Since the cost of bidding is heavy (some 2% to 4% of a contractor's revenue), this game is both unfair and inefficient**

➔

Contractors may hike their prices in the first bidding:

1) **To offset the future extra-bidding cost**

2) **To keep some room for manoeuvre during the following bidding rounds**

COMMON SENSE AND CONTRACTING: A FEW EXAMPLES

NONSENSICAL COST AND RISK ALLOCATION

- **Oil and gas companies have generally a cheaper access to funding, insurance coverage, and forex hedging than most contractors**

- **Providing to contractors negative cash flows on projects, limited insurance coverage and single currency contracts is an economic nonsense**

➔ **Transferring these costs to contractors will make projects more expensive through a pure waste of resources (although banks and insurance companies might have a different opinion …)**

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THE "TOUGH CONTRACT" EXPENSIVE SHIELD

- Some owners believe they will get cheaper projects by being extremely tough on terms and conditions:
  - ➔ Extra heavy penalties
  - ➔ Consequential losses
  - ➔ No right of suspension/termination in case of non-payment
- This trend triggers higher contingencies in contractor's pricing
- The end-result is an unnecessary increase in projects costs

➔ **When the shield is too heavy, it creates a burden on project costs**

A QUICK AND DIRTY EXAMPLE

- Let us assume a project worth $1,000 million, for which delivery schedules are tight and guaranteed technical performance is challenging

- After risk analysis, most contractors decide to factor in a 25% contingency on liabilities

  - If the client requests a 10% liability ($100 million)
    Contractors will include in their price
    a contingency of: 100 x 25% = 25 → 2.5% of project cost

  - For a 20% liability, contingency
    will be raised to: 200 x 25% = 50 → 5.0% of project cost

  - For a 40% liability, contingency
    will be raised to: 400 x 25% = 100 → 10.0% of project cost

Increasing penalties and liabilities:

- does not increase the level of safety for the clients
- adds unnecessary costs to the projects

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V. BRINGING BACK SOME COMMON SENSE?

MORE COMMON SENSE: CONTRACTUAL TERMS (1)

1. **Payment in multi-currencies in line with contractor's cost structure**

2. **Provide to contractor a neutral, if not positive, cash flow**

3. **Late payments should incur financial costs**

4. **Right of suspension / termination in case of non-payment**

MORE COMMON SENSE: CONTRACTUAL TERMS (2)

5. **Provide to contractor insurance coverage for major risks (with reasonable deductibles)**

6. **Compensate cost increases linked to major economic disruptions (steel prices…)**

7. **Stop the extravaganza on liabilities: cap on liabilities per project should be high enough to control contractors and low enough to not inflate too much their contingencies**

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MORE COMMON SENSE: TOWARDS A NEW BEHAVIOR?

- **Contracting strategy:**
  - ➔ **Clarify and stabilize the rules**
  - ➔ **Limit EPIC contracts to well-defined scope and technologies**
  - ➔ **Allocate risks/costs to the right party**
- **Relationship:**
  - ➔ **Let business people run the show (rather than outside consultants and lawyers)**
  - ➔ **… and provide them some give-and-take authority**
  - ➔ **Forget short-termism and focus on long-term partnerships**

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THE WAY FORWARD

- **Some contractors' associations are currently trying to re-define what could be the best practices in oil & gas contracting (IMCA principles on risk allocation, for instance)**

- **What is needed at this time is a positive attitude by the majors and super-majors in order to restore some common sense in their dealings with contractors**

➔ **Oil companies should realize that additional burden on contractors mean – one way or another – additional costs and risks on projects**

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