THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TEC.PA - Q1 2012 Technip SA Earnings Conference Call

EVENT DATE/TIME: APRIL 26, 2012 / 8:00AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Thierry Pilenko *Technip SA - Chairman & CEO*

Kimberly Stewart *Technip SA - VP, IR*

CONFERENCE CALL PARTICIPANTS

Julian Waldron *Technip SA - CFO*

Ian Macpherson *Simmons & Co - Analyst*

Alex Marie *Exane BNP Paribas - Analyst*

Phillip Lindsay *HSBC Global Research - Analyst*

Guillaume Delaby *Societe Generale - Analyst*

Henry Tarr *Goldman Sachs - Analyst*

Mick Pickup *Barclays Capital - Analyst*

Fiona Maclean *BofA Merrill Lynch - Analyst*

Christyan Malek *Nomura International plc - Analyst*

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

PRESENTATION

Operator

Good morning, everyone, and welcome to Technip's first quarter results conference call. As a reminder, this conference call is being recorded. At this time, all participants are in a listen-only mode. Later, there will be a question and answer session.

I would now like to turn the call over to your host for today's conference call, Mr. Thierry Pilenko, Technip's Chairman & CEO. Please go ahead, sir.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Good morning, ladies and gentlemen, and thank you for participating in Technip's conference call. I'm Thierry Pilenko, Chairman & CEO of Technip. And with me are Julian Waldron, CFO; Arnaud Real, our Deputy CFO; as well as Kimberly Stewart, Apollinaire Vandier, and Chaun Wang from our Investor Relations team.

I will turn you over to Kimberly who will go over the conference call rules. Kimberly.

Kimberly Stewart - *Technip SA - VP, IR*

Thank you, Thierry. I would like to remind participants that you can download the first quarter 2012 results, press release and presentation on our website, technip.com.

Participants are reminded that statements made during the conference call today which are not historical facts are forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995. Readers and listeners are strongly encouraged to refer to the disclaimers, which are an integral part of today's slide presentation, which you may download, again, from our website. Also, an audio replay of today's call will be available in approximately two hours after the call ends.

I now hand you back to Thierry.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Kimberly. So our first quarter performance was very much in line with our expectations. Revenue was EUR1.8 billion, up 23% year on year, and Julian will provide you more details on this later in the call.

I think the most striking aspect of the first quarter was our very strong order intake of EUR3.3 billion, which reflects the trends that we highlighted 10 weeks ago during the 2011 full year conference call where we said that the tendering activity in general is much higher than a year ago, with momentum across nearly all our markets, which is driven by our customers' desire to bring new reserves into production, particularly for the upstream.

So this is well illustrated on slide 5, where you can see that our Subsea segment order intake for the first quarter 2012 was nearly EUR1.9 billion, made up of project awards on basically all the major oil and gas offshore bases.

In the North Sea, the market continues to be very active. We've won several small and medium-sized contracts, but they're complemented by also very large and complex projects. Two examples are Quad 204 EPIC contract in the UK, which consists in replacing an existing production system, and with a new solution which involves both rigid and flexible pipes. And also, the Asgard project in Norway, which again illustrates the increasing complexity of subsea processing in the North Sea.

As we stated in February, we have also been in a position to book our new S-lay and Heavy-lift vessels on several projects, notably offshore Australia and China, as announced yesterday in a project that we won in China.

This commercial success, combined with Jubilee Phase 1 in Ghana, show a good position in this market with the addition of the G1200 and G1201 vessels.

In the US Gulf of Mexico, we have been awarded several subsea projects notably for Lucius development, which will be performed with a Deep Blue, while, in Brazil, technology continues to be a strong differentiator, as illustrated by the award of high pressure, gas injection, flexible risers for Guara & Lula Nordeste pre-salt developments. These contracts altogether contributed to a record Subsea backlog of EUR5.7 billion.

Now turning to slide 6 in our Onshore/Offshore segment, the order intake, in this quarter is EUR1.4 billion, with contracts across continents. For once, Europe had a good level of awards, with renewal of offshore platform activity for Technip in both Denmark and Norway. The large EPC contract to build the Burgas refinery in Bulgaria also highlights Technip's leadership in refining, and our strategy to get involved in our customers' key projects very early in the lifecycle.

Also, in Malaysia, as you know, we've been strongly focused in developing local engineering capabilities, and this is continuing to bear fruit, as we got the award of the RAPID petrochemical and RAPID refining complex FEED, which is really a landmark project for future activity in the region. This project is going to be very huge and over a number of years, so we are in the right place with the FEED.

In parallel, we were very successful in securing various offshore and onshore contracts in Americas and the Middle East.

Moving to slide 7, as I stated in February, we are maintaining our momentum to our build organic and non-organic growth in terms of vessels, plants, but also human resources, and we've been able to recruit a fairly significant amount of people throughout the world. And if we look at the evolution from January 2011, we've been increasing our workforce by about 5,000 people around the world. So this growth is supporting our now record backlog of EUR12.3 billion, and providing us good project execution capabilities.

Going back to this backlog, it remains very well diversified. Our positions in the regions with growth opportunities continues to be strong, notably in Latin America, Asia Pacific and North Sea. And if you look at the growth of the Shallow Water portion, it actually reflects projects won recently,

THOMSON REUTERS

particularly in the North Sea, where most projects continue to fall in the category of Shallow Water, even though they are more complex than in the past. So the North Sea, Asia Pacific and Venezuela are big contributors to this Shallow Water portion.

Onshore/Offshore, refining continues to be strong, driven by our clients' need to develop new capacities in emerging countries in particular, or upgrade existing production units. And while new conventional and unconventional gas discoveries should continue to grow our exposure to petrochemical, gas and LNG and the FLNG markets. We'll come back to that in a minute.

I'll now turn you over to Julian, who will go over the financial highlights of this quarter and the year.

Julian Waldron - *Technip SA - CFO*

Thierry, thank you very much. I'll turn to slide 10 and the first quarter 2012 Subsea highlights. And here, I've got a couple of points that I wanted to mention.

So first, as you can see from the details on the slide, we were busy across a lot of projects in our various regions, although there was no major project that was turned over to the client in the quarter.

Second, in the North Sea, we were working hard to catch up on work held over from 2011 due to the weather conditions, and we were quite successful in catching up on a lot of this on some key projects, such Islay Fairfield and Gulf in the quarter. We need to continue to do this over the next few months to maintain the momentum on that and to meet the client needs.

Next, as you can see from the last bullet, we have vessel utilization for the whole fleet of 62% in the first quarter. If you look back a year ago, we were at 65%, and it's worth spending a moment maybe to understand the underlying moving parts.

First, the -- if we look at if you will at the ex-Technip fleet, we had about 30% more dry dock and maintenance days in the first quarter 2012 compared to a year ago, and this increase, for example, included planned maintenance on the Apache II, the Deep Blue and the Deep Pioneer during the quarter.

Second, the 62% covers all of the fleet, including the newer additions, the S-Lay and the Heavy-lift vessels, and these of course were less utilized than the Reel-lay and the Flex-lay vessels. So taking these factors into account, I think we conclude that the underlying trend for utilization continues to be for improving utilization.

Subsea operations in the first quarter gave a sharp rise in revenues, and a rise from EUR100 million to EUR116 million in operating profit. The performance of the S-Lay and Heavy-lift assets, the ex-global assets if you will, was very much in line with our expectations. They're now fully integrated into the Subsea segment, and it's difficult to give or to separate them out now from operations. As an estimate, we think that if you were to exclude the acquisitions, we would have turned in a margin performance quite similar to last year.

Turning to slide 11, Onshore/Offshore, three projects to comment on I think in the list. The first fabrication of the Lucius Spar is moving well in our yard in Pori, and the first structures of the hull are really taking shape now.

Second, we completed the FEED of the first of the Petronas FLNG project. That was delivered to the client in the quarter. And we're now awaiting the client's decision on whether or not to proceed.

Third on Prelude, we're moving well through the procurement phase, and we were able to recognize some additional order intake in the quarter.

Overall, the segment operating margin at 6.6% was right in the middle of our target range, so we're very much on track to meet the full year outlook.

So on slide 12, if we summarize at the Group level, so revenue up strongly. Depreciation and amortization at EUR40 million in the quarter compared to EUR34 million a year. This, I think, may move around a little bit as we complete the fair value analysis of the acquired fleet, but no major changes of trend.

The decline in the operating margin compared to a year ago I think is explainable through the acquisitions, as discussed in Subsea. Again, it's not an exact exercise, but we could estimate that excluding acquisitions, we would have turned in the margin performance again quite similar to last year.

The low operating profit, the financial income line shows a reduction of our net interest expense, thanks to the refinancing over the last couple of years. And our gross interest cost, for example, was about EUR4 million below the quarter a year ago. On the other hand, mark-to-market costs remain volatile and were less favorable than a year ago.

And our income tax line came in a point or so underneath our 30% target rate, so again, I think that was a satisfactory performance.

Lastly, looking at the cash flow and investment spend, firstly on slide 13. Outflow of working capital in the quarter very similar to a year ago, and two years ago actually if you look at the quarterly movements. Largely reflects good progress in the construction phases, notably of some of our Onshore/Offshore contracts.

A mix of projects awarded in the first quarter was, of course, quite weighted towards Subsea, and notably in the North Sea, and the North Sea traditionally is slightly less front end loaded in terms of down payments compared to previous years. No particular change though in the way in which our industry works on prepayments.

Net construction contracts rose, probably back to a more normalized level from I would say an abnormally low level towards the end of last year, and that's across a range of projects.

The last capital expenditure on our new investments has started to ramp up well, and was close to EUR100 million in the quarter.

And on slide 14, I just wanted to take a slightly closer look at CapEx. First of all, concerning the manufacturing plants, we're well into the equipment procurement phase on the new plant in Brazil, and as Thierry mentioned, we're moving to three ships in Malaysia. And we might look to make some small additional investments there to add capacity.

18:49 and she will start mobilizing on the Liwan Shallow Water project offshore China in the next 10 days, and that will be her first project.

Both the Deep Energy and the Deep Orient are currently progressing satisfactorily, and we're firmly in the early phases of the projects, the new 550 ton vessels in Brazil.

Overall, we're moving forward well to add capacity to our manufacturing plant and our fleet in 2012 and '13 to keep pace with our growing market.

And with that, I hand back to Thierry.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Julian. I'm not going to go through the entire slide 16 about the business environment, but I'd like to highlight a couple of points.

We haven't seen a major shift in the business since our last review in February, but now we can see the more clear or clearer momentum in North America, notably in petrochemicals driven by shale gas.

Now Subsea, overall size and complexity of projects continued to increase, notably in Brazil, North Sea, Africa and Asia Pacific, really across the board. So we see probably more opportunities today than we did three or six months ago.

The timing for individual awards can be difficult to predict, particularly downstream. But bidding continues to run at very high levels, and we continue to see a very favorable orientation of our industry, as operators' investment plans still remain very, very ambitious, and including some very large projects, both in Subsea and Onshore/Offshore.

So our recent commercial successes have actually increased our visibility with about EUR2.7 billion of additional contracts this quarter to be executed in 2013 and beyond.

And now if you look at 2012, the portion of our backlog scheduled for execution this year covers around 90% of our estimated 2012 revenue, which is in line, completely in line with previous years. So this is clearly enabling us to reiterate our 2012 financial objectives, and our full year outlook which you can see on slide 18 is unchanged.

Our Subsea and Onshore/Offshore segments are both expected to deliver revenue growth and we target operating margins of around 15% for Subsea; that obviously includes Global Industries assets and people. And between 6% and 7% for Onshore/Offshore.

So this concludes our comments, and we are now ready to answer the questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ian Macpherson, Simmons & Co.

Ian Macpherson - *Simmons & Co - Analyst*

I would agree that the very strong orders were the defining aspect of your release today, and I'm just curious. You have mentioned, Thierry, that the visibility, particularly for Subsea is better than you saw at three to six months ago. How sustainable is this level of intake, vis-a-vis your capacity really, given the sizeable awards that are coming into the industry in Brazil and probably West Africa this year? How much more can you take on before you begin to get concerned about execution and internal constraints to deliver the backlog?

Thierry Pilenko - *Technip SA - Chairman & CEO*

All right. Well, first of all, Ian, we have been increasing capacity regularly and steadily for the past five years, investing in new assets, both vessels and manufacturing plants, investing in people, investing in new markets, and more recently of course acquiring Global Industries. So as you can see, we have been building differentiating capacity that will help us target some of these large contracts.

But definitely, we are now entering into a phase where we will be even more selective than before in terms of the projects that we are going to target. There are a number of projects that are on the radar screen and should be awarded between, say, 12 to 18 months, which are very large projects. I'm talking about West Africa, Brazil, Asia Pacific, possibly Gulf of Mexico.

Those projects will combine a number of assets, which generally combine both flexible and rigid technologies. And at the moment, we believe that we have the right capacity, and both in terms of assets and people to target these projects. But definitely, we are entering into part of the cycle where we will be more selective about the projects that we target.

Ian Macpherson - *Simmons & Co - Analyst*

Okay, thanks. And then maybe just as a quick follow-up. Can you talk about the level of commitment and utilization for the Global assets that you have today compared to --? I know you haven't revised your guidance, but it would appear that the deployment of those assets is higher than we would have guessed three months ago. Is that fair?

Thierry Pilenko - *Technip SA - Chairman & CEO*

No, I wouldn't say they're higher. They're pretty much within our expectations and our plan. I'll let Julian give you maybe more color on the numbers here then [if] it's difficult to completely dissociate these assets from the rest of our fleet.

Julian Waldron - *Technip SA - CFO*

So three months ago for '12, we indicated a revenue number above [300] and a loss of [30 to 40]. I don't think there's anything that we've seen that changes that, certainly not for the worse, and at this point, not for the better either.

I think what's encouraging for us is much more the level of tendering that we have at the moment for the utilization of those assets for '13 and '14. That's very encouraging. We have customers who look at the assets under Technip ownership like that, look at the integrated project management we can bring like that as well.

So I think that's the most encouraging part of the last three months, and we see that continuing.

The integration itself, you've heard us during the call talk about S-Lay and Heavy Lift assets. Really we don't have a Global and a Technip any more. It's a full integration; it's working I think as well as we can hope. We need to continue to maintain the momentum on that, but really, so far so good.

Ian Macpherson - *Simmons & Co - Analyst*

Very good. Thank you.

Operator

Alex Marie, Exane BNP Paribas.

Alex Marie - *Exane BNP Paribas - Analyst*

I am very interested actually in this Quad 204 project. I think this is a very large development, and it's quite unusual to see such a large redevelopment of UK North Sea assets.

So I just wanted to have a bit of color from you, and so it's on whether you see potential for similar large size redevelopments in the North Sea, and whether you imagine this trend expanding to Norwegian North Sea as well, and possibly Gulf of Mexico.

And finally, you mentioned I think in the press release that it will use several vessels from your fleet. I just wanted to see if you could be a bit more specific on the assets that you will use for this redevelopment.

Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Alex, thank you very much for this question. I think it's a very good question because what does it show? It shows that our clients are very confident about the long term and the sustainability to some extent of the environmental conditions in which these additional developments are being done. That means confidence in the price of commodities, and confidence that, let's call it life extension of fields in the North Sea, or additional extraction of the intimate reserves in the North Sea, makes good economic sense.

So we have said that for a while that the confidence was growing. If you look at the cycle in the North Sea, this is the market which is generally the most sensitive to oil price, and where projects are relatively small in general, or were relatively small.

Now we are turning into an environment which is changing. More confidence in the long term, and the need to upgrade or significantly change the production systems in the North Sea to extend the life of those fields.

And I think what is interesting is that we are probably going to see some of the majors, instead of doing what they did several years ago which was to farm out or divest fields in the North Sea, they're going to take a stronger position to themselves extend the life of these reserves.

In addition to that, you put the new discoveries, which I think given the new hopes in terms of exploration, I think this bodes well for larger projects.

Now will that expand to Norway? Absolutely. In fact, what you start to see in Norway is that they have been extremely innovative in trying to find ways to bring more energy to the fields, like the Asgard project is showing. Subsea processing, Subsea compression, bringing more energy in existing fields to try to improve ultimate oil recovery.

So we're obviously going to continue to see the small tie back projects, and so forth, and I think if you look at our order intake over the past nine to 12 months, you're going to see that it's a mix of small, medium, and now large projects in the North Sea. And this is this type of environment that we will see continuing with, if you want, an ecosystem where we will have both small players as well as larger customers that are actually either coming back or strengthening their position in the North Sea.

So certainly positive, but I would not compare that strictly to the Gulf of Mexico. The Gulf of Mexico is still pretty much in that, let's call it, not early phase, but that development phase of the Ultra Deepwater, or deep waters.

So here it's probably going to be sometime before we see these types of upgrades or replacement, but definitely, there might be some impact in maybe the shallower waters of Gulf of Mexico.

Does that answer your question?

Alex Marie - *Exane BNP Paribas - Analyst*

Yes, thank you very much.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Sorry, I was not very precise about which vessels we're going to use, and generally, we don't tell the market which vessels are going to be used because we have several options. But certainly, this is going to be involving some of our high-end assets, Reel-lay high-end assets.

Alex Marie - *Exane BNP Paribas - Analyst*

Okay.

Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - *HSBC Global Research - Analyst*

A couple of questions, please. Firstly, can you elaborate on the comment that you make about operators being concerned about resource availability? Is this specific to certain markets like the North Sea, for example, or is this more of a general trend you're now seeing globally?

Then on the timing of awards, which you -- as you say, remains difficult to predict, which I suppose is quite typical for this industry. I know you mentioned downstream, but are there any specific contracts or regions where you're seeing delays in awards coming to market?

Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Well, on the first question about resource availability, our two [COOs] and myself have been traveling very extensively over the past three months meeting a very large number of customers just to work on this pretty impressive order intake, but also to start to plan for the longer term. And I think if there is something that is becoming evident now is that our customers -- and I've been talking about that for a while, but now customers are talking much more openly about the type of resource issues that they may have.

And of course, the first thing that you can observe is this high demand for deepwater drilling rigs. It's very hard at this stage to get new rigs. New rigs are being built, but they're all under contract for these deepwater drilling rigs. So here. they see a potential bottleneck, so that bodes well for the drilling industry.

But as you know, we are immediately downstream from that industry, and we have started to see customers willing to move into long-term alliances. And it's not only to secure hard assets like vessels, or drilling rigs, or jack-ups, or whatever, or subsea construction vessels; it's about securing the right project management teams and the right human resources. That's why it is so important for us and for our industry in general that we stay focused on recruiting, training and retaining the right people.

How do we try to react to this additional demand is to start to form alliances with customers. And in fact, many of the contracts that we have won in the past three to six months are generally around alliances, frame agreements, things that are giving us more visibility so that we can plan better for resources. So this is truly across the board, and this is particularly true for the upstream.

Now the timing of awards that I was talking about, and I talk more about the downstream, because some of the downstream projects that we are working on at the moment, or the opportunities that we are working on at the moment are relying upon a certain level of external financing. And as you know, external financing has been a little bit more difficult to have for certain types of our customers, because the Japanese are more careful, the Europeans are extremely careful about financing, project financing. So it takes sometimes more time for certain of our customers to sanction, say, a very large petrochemical plant or a refinery.

In the upstream phase, the delays are not really coming from financing bottlenecks. They are more coming from the negotiation that is taking place between international oil companies and national oil companies, as in this better environment in general, pricing environment and profit environment, there is more negotiation between those two, and therefore, sometimes it takes more time to actually sanction projects. But this being said, there is still, as most customers are willing to move forward, you can see that the momentum for oil business is pretty strong.

Julian Waldron - *Technip SA - CFO*

If I can add a couple of comments to that. I think from our point of view, this isn't a new trend, and I think one of the things that we've tried to do in looking at order intake over the last two or three years, as it's been very difficult to predict when individual orders would fall, is to make sure that the order intake is diversified enough, and particularly go after projects which are maybe less time or less difficult to predict, even if those are smaller and medium sized.

I think the second trend, and I think others have pointed this out as well, we see a number of projects where early works will be started maybe a quarter or two before the final EPC approval is given. And a couple of the projects which have come into full force in the first quarter, including the downstream projects, we started work a quarter or two ago, those two trends I think have been around for a while and are just part of the way that we have to do business.

I think much as anything, we're just calling out for you, but I think trying to look ahead and pinpoint that a particular project will fall in a particular month, we think that's a very difficult exercise for you and us to do. So we need to make sure we're broadly based in the way that we try to take business.

Phillip Lindsay - *HSBC Global Research - Analyst*

Sure, got it. Okay. Thank you.

Operator

Guillaume Delaby, Societe Generale.

Guillaume Delaby - *Societe Generale - Analyst*

In fact, I have three very small questions, various types of question. So first one, will there be some restructuring costs for the global industry deal following in 2012? I haven't seen any in Q1 2012, so it probably means that this integration is going very well.

Second point, I've been a little bit surprised by the low level of depreciation in Q1 given the integration of the global fleet, so if you can make one or two comments.

And also, I would like to know if you plan in the future maybe to do some share buyback in order to offset the dilution which might come from the shares which are given to employees.

Thank you very much.

Julian Waldron - *Technip SA - CFO*

We are taking some restructuring costs for global, but they're pretty small, and they're included in the operating profit from recurring activities that we report. And that will continue to be the case. The costs that we're incurring, as I say, they're not particularly great, and they're, for example, for the lease severences and things like that. So the guidance we gave at the beginning of the year took those into account, and that continues to be the case.

On depreciation, it will be a little bit of a moving feast as we go through purchase price accounting for the global assets, but for example, the 1201 was not depreciating during the first quarter because it wasn't operating. That will start in the second quarter. You'll have seen that we sold an older vessel called the Asiaflex Installer during the quarter. In fact, that had a slightly positive impact on deprecation because that was written down. So there will be some moving parts, but I don't think there's any major change in trend.

As far as share buybacks are concerned, I don't think I have anything to note except some of the employee plans that we have for both options and performance shares are purchase plans rather than subscription plans, and there is from time to time a requirement to purchase stock to meet those purchase plans. And that has been the case and it will continue to be the case. Those are not that significant.

Guillaume Delaby - *Societe Generale - Analyst*

Thank you.

Operator

Henry Tarr, Goldman Sachs.

Henry Tarr - *Goldman Sachs - Analyst*

Three questions. Firstly, what would the utilization of the fleet be ex the global vessels, and how do you expect utilization overall to trend through the rest of the year?

Secondly, please can you comment on margins in Subsea, particularly on the more spot market basin, so the North Sea and Gulf of Mexico? What are you signing today versus what you were signing 12 months ago?

Then lastly just in flexibles, when you move to three shifts in Malaysia, I think capacity globally will be even more or less at full utilization, with little new capacity coming on until 2014. Is that right? Are you still seeing strong demand and pricing in that segment?

Thanks.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Okay. I'm going to answer the margins and flexible questions, and Julian will answer the utilization.

The margins in Subsea, I would say compared to one year ago, we see strengthening in the North Sea. The Gulf of Mexico has never seen really, in spite of the low activity post Macondo, we have never really seen a deterioration in margins over there. So it's pretty much the same as before. So I would say the region in which we have definitely seen strengthening in margin is the North Sea.

As far as the question on Asiaflex and the flexible production, flexible umbilical production in Asia is concerned, we are now moving to what you call three shifts, or 24/7 rather. And it is true that now we are moving also much more towards flexible manufacturing. In fact, this plant started with a mix of umbilicals and flexible. Now we are going to move towards more flexible and more let's call it high-end products, because flexibles are more sophisticated products than [turbo] plastic umbilicals. So that's one thing to respond to the demand in Asia.

The second thing is we still believe there is room for improved productivity in Asia, and in Asia Flex in particular. That is an area where we've been working very hard over the past few months, and we should be able to improve the capacity just by improving productivity in that plant. And ultimately, we may be thinking, but that's probably too early to talk about it, but we may be thinking about expanding the capacity of that plant at some stage.

Julian Waldron - *Technip SA - CFO*

Henry, on the fleet utilization, I mentioned in the presentation that the underlying trends were positive. I think if you just look at the ex Technip fleet, don't adjust for anything else, you'd be just about 70% utilization compared to 65% a year ago.

Henry Tarr - *Goldman Sachs - Analyst*

Okay, that's very helpful. Just one last quick thing. How much if any of the frame agreement with Petrobras for flexibles entered the backlog in the quarter on the Subsea side?

Thierry Pilenko - *Technip SA - Chairman & CEO*

It's very simple; zero. We recognize backlog in a frame agreement when we get purchase orders within that frame agreement. And this is the same for the Statoil frame agreement that we signed as well. They zero all their intake in the first quarter, so this is coming later. Okay?

Henry Tarr - *Goldman Sachs - Analyst*

Very clear. Thank you.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays Capital - Analyst*

A couple of questions, if I may. Firstly, just referring back to your comments about being more selective in targeting, can I just ask about the mentality there? Is that targeting on places where you think you can get a better margin through, or is it targeting projects where you think you deliver better, it fits in with your scheduling? So just whether you're thinking being selective means you can start pricing in here.

Secondly for Julian, just on the carry-over in the North Sea, can I just ask a quick question on whether that is basically a risk that's embedded within the backlog now more that you've got in -- sorry, more backlog in the North Sea. And on that carry-over, exactly how does that work? Does that mean you're getting weather in the areas the periods when it was delayed, and now you're executing the project as expected?

And thirdly, just going back to Ian's question, if we look at your backlog, there's a lot more in Shallow Water than Deepwater. Obviously, that Shallow Water is going to continue to be strong, but if we look at the projects out there, we think the Deepwater will probably be growing. What do you really need to see before you commit to a new Deep Blue?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Okay. Well, I'll answer the first question. When we say we are more selective, that means we have to select projects where we will be able to have better profitability, which is the number one, and better chance to win so that we don't start targeting projects where the probability of winning is, say, less than 50%. Okay? And that's what it means.

But the main driver for the Company is profitable growth, and profitable is before growth. Of course, we are growing, but we want, and we continue to have a focus on profitability. So that's going to be the main driver; profitability and the conditions to win the projects. That's going to be the focus of selectivity.

Julian, do you want to answer other --?

Julian Waldron - *Technip SA - CFO*

So carry-over in the North Sea. You'll remember -- it's a good question. You'll remember that in quarter 3, but particularly in quarter 4, we had very high vessel utilization and quite high revenue without a particular fall through the bottom line, because we were being reimbursed for the elements of [waiting] on weather.

So what we've been doing in quarter 1 is as fast as we can safely, in particularly January and February, is trying to complete the work that was held over. And I won't say that we've got through that completely, but we've got through a very large amount of what we needed to get through during January, February and early March.

So what remains to be done is relatively small in terms of vessel days. We need to finish some of the projects and tie up the formal handover to the customer. But for example, on Islay, you saw Total started producing on that I think a few days ago. So we caught up I would say as well as we could have hoped, if not a little better, during the first couple of months of the year.

Looking forwards, and I go back in part to the point that Thierry made to your first question, we need to make sure that we're being selective to take projects where we have the right assets and the right execution schedule, and that continues to be a very strong focus for us. But I don't think we look at 2012 in the North Sea and see any particular risks related to carry-over. If there are going to be risks, it's going to be new weather conditions.

And I think lastly, when you look at the order intake, Thierry mentioned it in his presentation, EUR2.7 billion of the order intake in Subsea was for '13 and beyond. If you just actually look at '14 and beyond, that was about EUR1 billion of that.

So the trend we see at the moment in order intake in all of the regions, including the North Sea, is much for later execution than creating bottlenecks in the near future. And we try, and hopefully we succeed, but we certainly try to be quite prudent in the way that we book assets for the near term, because we don't have a lot of spare capacity left, as you can guess.

Mick Pickup - *Barclays Capital - Analyst*

Yes, thanks.

Julian Waldron - *Technip SA - CFO*

Shallow water, Deep Blue? Do you want me to deal with that?

Thierry Pilenko - *Technip SA - Chairman & CEO*

No, I can do that. As far as our backlog is concerned, you've seen Shallow Water increasing, but it's mostly because of platform and is several contracts, including Quad 204 in the North Sea. Now as far as Deepwater and Ultra Deepwater is concerned, we certainly are evaluating the market at the moment, and we'll probably have to make a decision before the end of the year about which way we're going to go for this market.

Mick Pickup - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Fiona Maclean, Merrill Lynch.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

I have a couple of questions about some new emerging markets. Firstly, in East Africa, could you talk about the various processes and strategy you have to start to build some local content in that region over the next few years and what type of contact you've been having with the client base there?

And then secondly, in Iraq, you've pretty much shied away from getting involved in any of the major projects in the south of the region. Could you give us some flavor as to your feeling on working in the north of Iraq around the Kurdistan regions particularly, given we're seeing a lot more interest from the major oil companies in that area?

Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you. Two very good questions about new markets. I'll start with East Africa. And the driver for East Africa will obviously be gas, and huge reserves have been discovered over there, and I think we're going to get even better news, more news about additional reserves in the very near future.

So in these different processes, what are clients thinking about? Well, they are thinking about LNG, of course, because the local market is virtually inexistent, and they are thinking about floating LNG. And I think these are the two types of opportunities that we will be pursuing.

Now how are we going to pursue these opportunities? The local content, I would say concerns or issues are relatively limited at this stage. They may become a major issue as Mozambique and other countries over there are going to become [higher] carbon producing countries.

But we are in contact with customers that are looking at different options, both on land and LNG, onshore LNG, as well as possibly floating LNG, and we're going to have an approach which is very similar, at the beginning at least, to for example what we did in Yemen with the Yemen LNG project where we had capacity to mobilize the right resources, speaking the right languages and -- but also the capacity to recruit and train local people to work on the construction of these plants.

So this is pretty much the approach that we are going to have, and we are already involved in FEED for clients in North America who are very keen to get into that market for the first time. And we'll probably do it also in a joint venture with one or two or more of the major LNG players. That's our current plan.

Now one thing which is very important for Mozambique in particular is to understand that this is a Portuguese speaking country. We have -- we are very lucky to have first of all more than 3,500 people in Brazil who do speak Portuguese, plus people in Angola with experience in African countries, of course. And we just opened a new office in Portugal where we are recruiting very high caliber engineers which are going to be used on projects for Brazil, for Angola, but also for Mozambique.

And so this is our plan, and our clients I think like the execution plan. So it's not going to happen tomorrow, but I think we are in a very good position there to play a big role, both on the subsea development, because there's going to be huge subsea development, possibly the platforms, and certainly the LNG plants.

Going to Iraq, well, you've heard me talk about Iraq many times over the past three years. I always say this is a country which is a mess and where we have real difficulties to keep our people in secure areas. If you look at what has happened recently with some super majors who tried to set foot in the Kurdistan areas, there have been major setbacks I don't think Iraq represents a major opportunity for Technip because it's unsafe.

Now long term, it is a country with huge reserves, and at some stage, of course, they will get their act together and we're going to have better conditions. So that's why we continue to have a relationship and doing FEEDs that we do outside of the country with minimum presence in the country.

Our services in Iraq and our track record in Iraq, although it's a little bit old now, has been excellent. We have good relationship, but the conditions are not there for us to participate in a big way to the Iraq development. We have better opportunities than Iraq in terms of EPC for our downstream business.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Okay. And maybe just one follow-on question on floating LNG. There are quite a number of FEED studies that are taking place at the moment. How realistic do you think it is that we get an [FID] on a new FLNG unit in 2012?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Well, I think it's pretty likely we're going to see an FID in 2012, but I can't tell you where it's coming from. A lot of our customers, with whom we've been working very closely doing these FEEDs are talking about moving forward, so I wouldn't be surprised to see an FID before the end of this year, and where Technip could be involved.

However, it may not be the same type of contractual relationship as we had with Shell as there are different models for these EPC contracts in the market. But I'm very confident that the technology is taking off.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

Operator

We have time for two more questions. Christyan Malek, Nomura.

Christyan Malek - *Nomura International plc - Analyst*

Just two questions, if I may, first, just coming back to the point around utilizations. And is there any way you could just qualitatively give us a number around your Deepwater capacity here at this level, and how much further you can go in terms of percentages, or directionally, over the next 12 months to 18 months?

And I think the second question is the framework agreements that you've set up have been very successful. How much does that lock in to your capacity? Put another way, with those frame agreements you've committed to those vessels, are committed to having their capacity of your clients. Is there any way you can give us a split of what's locked up, so to speak, and what's actually free for you to apply to new contracts?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Utilization, Julian.

Julian Waldron - *Technip SA - CFO*

So Christyan, thanks for the question. I think, over the next 12 months to 18 months, we get new capacity on board, particularly in Subsea from the CapEx that we're spending. And we also have a way to go to fully utilize, for example, the G1200 and the G1201. And then, towards the end of '13, you have new vessels, the Orient and the Energy, which also come on stream at that point. So I think we have a roadmap to expand the capacity, both in manufacturing and in vessels. As far as engineering capacity is concerned, we're recruiting, as Thierry mentioned, and we need to maintain the momentum in recruiting. But our recruiting strategy has been not just to recruit in our existing centers but, for example, in places like Portugal, to look to diversify where we get highly qualified engineers from.

So we I think have a good plan in place to continue to move capacity up in line with what is a growing market. None of that will stop us continuing to be selective, prudent, and I hope with a good eye on risk in making sure that we maintain the diversification of our backlog and grow it prudently, with a focus on project execution and the focus on profitability. As Thierry says in his statement this morning, that remains very central to the way in which we want to grow our business.

On the frame agreement?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Yes, on the frame agreement, Christyan, I will talk about two types of frame agreements. There are frame agreements around manufacturing, typically the Petrobas agreement that we just signed this quarter; and frame agreements around a vessel in the North Sea.

So vessel in the North Sea start with that. It's pretty hard to answer your question because we have in our model a certain number of days per year. But that could be more, that could be less, because it's a very spot market in which Statoil decides that they have such and such project, and they give you some visibility, but not complete visibility. We have an idea of how many days we're going to be using in a given year. It could be more, it could be less, and this is sport market.

Now as far as manufacturing frame agreement, I would say several things. First of all, the frame agreement with Petrobas, you have to understand it is for the [post] sold, which means the traditional field developments. These frame agreements and the orders that are going to come from these agreements, these are going to be I would say mostly for our existing factory in Brazil, and it's providing good visibility for that factory, which is going to be fully utilized.

Now in parallel to that, what we have done with Petrobas is, of course, we've been working with them in giving them visibility in our other factories. And we have, as we have already mentioned, manufactured recently several projects from our Le Trait factory in Normandy, and we have asked them to qualify our Asiaflex factory, so that for either the traditional fields or the pre-sold fields we have capacity worldwide where all these factories are going to work together to satisfy Petrobas' demand.

Now another element, of course, is the second factory in [Arsu] Brazil, where we have selected the site and we are making progress. We have already selected and ordered the key equipment. And the faster we can have this one working, the better, because we consider demand is growing.

But I wouldn't call it bottleneck at the moment. I would call it good utilization; and, again, selectivity in the projects we take, focusing on the most profitable projects. So it's fairly different dynamics now in the flexible market, compared to 18 months ago.

Christyan Malek - *Nomura International plc - Analyst*

Thank you, Thierry, and just one perhaps follow-up just very quickly. With demand very strong and the outlook only getting tighter for capacity in the [section] also for yourselves, what is stopping you from investing more today, given obviously you take advantage of the costs and the fact that you're ahead of the inflation which you will also have to take if you take the decision one year, or 1.5 years later? So what's the trigger in the decision-making process to start building out more for the Deepwater end?

Thierry Pilenko - *Technip SA - Chairman & CEO*

You're talking particularly about manufacturing capacity?

Christyan Malek - *Nomura International plc - Analyst*

No, sorry, installation capacity, not manufacturing. Sorry.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Sorry, because manufacturing, as I said, we'll have to look at how the market evolves, particularly in Asia, the demand evolves. And as we say, we have to bring the vessels that we have committed to bring to the market, first of all, including the last two PLSVs, these 550 tons that we are building for Petrobas.

We are looking potentially at participating into the next round of PLSVs for Petrobas, and as you probably know, they have issued a tender for an additional seven PLSVs. And we are looking at how we could participate to that with the right partnership and capital allocation. And as I said earlier on the call, we will -- before the end of the year, we have to make a decision about what we want to do for Ultra Deepwater.

Christyan Malek - *Nomura International plc - Analyst*

Sure, thank you very much.

Operator

Jean-Luc Romain, CM-CIC Securities.

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

Just one question. What is your view about the attribution of contracts in Russia and [Stockman] following the agreements that are [rolling] in a good direction in this country in mainly vertical framework which seems to be going in the right direction? I remember [we] were not very optimistic last time Technip talked.

Julian Waldron - *Technip SA - CFO*

Jean, thanks very much for the question. I think -- I don't have a lot to say on that project specifically. I think what you read in the press is what we know, and what we read in the press. I think though it's a very good example of one of the themes that we touched on earlier. As and when it goes ahead, it's going to be a very large project for the industry, and for a number of different participants in the industry.

However, I think to build a backlog strategy on the timing of that project would be a mistake, because its timing has moved around a lot over the last two years, and past history I think tells you that, therefore, you cannot be certain when or in what form it's going to be attributed.

So it's a big project. It's out there. The reserves are clearly there to be exploited. It will happen at one point. And as and when it happens, I think we would hope to have an involvement in it. It's just very difficult to put your finger on which quarter or which month it's going to happen. And it could accelerate; it could equally I think slip further.

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

Okay, thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you very much for the call, and looking forward to talking to you during the road show.

Kimberly Stewart - *Technip SA - VP, IR*

Ladies and gentlemen, this concludes today's conference call. We would like to thank all of you for your participation. As a reminder, a replay of this call is available on our website in about two hours. You are invited to contact us in the IR team should you have any questions or require additional information.

Once again, thank you, and enjoy the rest of your day.

Operator

Thank you for your participation in today's results conference call. We would like to clarify that a reply of this call will be available within the next two hours. The replay will also be available by dialing +33 172 00 1500, or +44 203 367 9460, or +1 877 642 3018, using the confirmation code 276534#. The replay will be available for two weeks.

Thank you and goodbye. You may now disconnect.
