

FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, good morning everyone and welcome to Technip's first quarter 2010 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'd like to turn the call over to your host for today's conference call, Mr. Thierry Pilenko, Technip's Chairman and CEO. Sir, you can go ahead.

Thierry Pilenko - Technip - Chairman and CEO

Good morning, ladies and gentlemen, and apologies for being late. We had some technical problems this morning. Thank you for participating in Technip's conference call. I'm Thierry Pilenko, Chairman and CEO of Technip, and with me are Julian Waldron, our CFO, Arnaud Real, Deputy CFO, as well as Kimberly Stewart from our Investor Relations team.

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

Kimberly Stewart - *Technip - VP, IR*

Thank you, Thierry. I would like to remind participants that you can download the first quarter 2010 results press release and presentation on our website, technip.com.

Statements in today's press release, as well as those made during the conference call, which are not historical facts are forward-looking statements within the meaning 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 press release and slide presentation.

Also, a replay of today's call will be available on our website approximately two hours after the call ends.

I now hand you back to Thierry.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Kimberly. I'll be going over the first quarter 2010 during this section of the presentation.

It's been just over two months since our last results conference call and one month since our investors' field trip in Le Trait flexible pipe manufacturing site in Normandy, and I must say that our view of the market conditions haven't changed much since then. Final investment decisions from our customers are still slow, while they continue to look for ways to reduce their project costs. Competition remains intense in all regions, yet the volume of new business for later execution continues to show signs of picking up. Nonetheless, at Technip we are continuing to focus on project execution.

Now let's take a look at a few of the major operational highlights for the first quarter of 2010, starting with the Subsea business segment, which is listed on slide four if you have access to the slide show. To allow time for Q&A, I will only highlight the main ones.

First of all, we had no major project closeouts during the quarter, but offshore operations continued on Cascade and Chinook projects in the Gulf of Mexico with installation of jumpers which are going to be connected to the FPSO. In the Jubilee field in Ghana, the initial phase of the offshore operations with the Deep Blue was successfully completed. And the operations offshore Brazil started on the Tupi gas export pipeline with the support of the newly acquired Port of Angra.

Vessel utilization rate was 70% this quarter, compared to 73% a year ago, notably due to an increase in dry dock days in the first quarter of 2010. And we also continued to have good activities at our flexible pipe production units in France and Brazil.

Our Subsea order intake included the first order for Technip's new flexible pipe plant in Asia, called Asiaflex, for an order for CNOOC, the Lufeng oil field development which is located in the South China Sea. And we have also won numerous other projects, with a particular focus on Brazil and the North Sea.

Our backlog, however, doesn't yet include the flexible pipe supply contracts which have been awarded by Petrobras for the Tupi pilot development which we announced last night. It will be in our backlog in the second quarter of this year.

So, turning to slide five, in the Middle East the second train of the Yemen LNG plant started production, while pre-commissioning was completed on the Khursaniyah gas plant Train 2 in Saudi Arabia. In Qatar, construction and pre-commissioning progressed on the last two out of six trains, so Qatargas 3 and 4, the Train 6 and 7 of Qatargas 3 and 4. In Brazil, P-51 semi-submersible platform was undergoing commissioning and systems' transfer to Petrobras were being made.



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Meanwhile, the FEED activities advanced well on the Shell Prelude and the Petrobras Floating LNGs. And Chevron's Wheatstone, the gas processing platform pre-FEED was completed and now we progress on the FEED activities for this Wheatstone platform. The Pori yard in Finland completed the refit of our Apache II vessel, but the workload should remain low in that shipyard for the rest of the year.

The first quarter 2010 order intake included Floating LNG FEED on the Shell Prelude, PMP project in Qatar for Qatar Liquefied Gas Company and several small and mid-size projects in Canada, Brazil, the North Sea and Asia Pacific.

I now turn you over to Julian, who will go over the financial highlights.

Julian Waldron - *Technip - CFO*

Thierry, thank you very much. So I'll turn to page seven and move on from there.

So, Group revenue was down 16% versus the first quarter 2009 and minus 17% at constant currency, so a small currency impact. And this reflects the contrast between a slight growth in Subsea and the decline in the Onshore business, which I'll come back to.

Margins showed an expansion year-on-year. The EBITDA margin improved by a full percentage point and the operating margin by 75 basis points, and the driver for that was the improvement in the Onshore/Offshore side of the business.

Net income was nearly flat year-on-year, reflecting a stable interest charge, lower cost of foreign exchange and a stable tax rate.

And concerning the order intake, the book-to-bill was slightly over 1 and we ended the quarter with a backlog just in excess of EUR8.1b.

So, looking on slide eight at Subsea more closely, as Thierry mentioned, there were no major project closeouts during the quarter, so there were no contracts that came to an end on which we took back any contingencies or warranty. So you have a pretty clean margin for the quarter, no one-off items in either the revenue or the P&L line, just good project execution on the current continuing book of business. Revenue increased by nearly 3% and the margin dropped by around 2 points year-on-year, both at the EBITDA and at the operating level.

Depreciation was in line with Q1 last year. I'd say it's probably slightly below the run rate for the full year. We'll start to depreciate the Skandi Vitoria and the Apache II from around the middle of the year, as they start operating. Overall, we'd still expect depreciation for the Group for the year to be between EUR160m and EUR180m, of which the vast majority in Subsea.

On slide nine, for Onshore/Offshore, we're seeing the strong impact in the revenue line of the runoff of older contracts, with Onshore in particular being affected. Now, when we look at those older contracts in more detail, the share of non-contributing, so non-profit-making legacy projects, was less than 15% in the quarter, which is around half the level of a year ago. And there are other older projects which were profitable, but which also were completed during the first half of last year, and I think those two things taken together explain the fall in revenues year-on-year. We had another quarter of good contribution from Jubail.

The margin increased by over a percentage point and that reflects the robust profitability of the non-legacy book of business that we have. Order intake was substantially ahead of revenue, as you can see. We've been through several quarters now of year-on-year declines, as the portfolio was realigned, including the sharp declines in the fourth quarter of last year and the further decline in Q1. But with that order intake, we'd expect over the next nine to 12 months that situation to reverse.

On slide 10, from operating income to net. If I look at the financial charges, no change to the interest on debt charge of around EUR7.5m. We had a slightly higher interest income in the quarter versus a year ago, slightly higher effective interest rates on



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our cash. Interest income taken through revenues was EUR7m against EUR3.5m a year ago. And the principal difference was that last year we had a negative impact of foreign exchange in the quarter of around about EUR8m and there was a very small EUR1m negative impact of that in this quarter. And the tax rate was stable year-on-year.

The lower minority interest charge reflects a couple of things. Firstly, the purchase of minorities in some affiliates in Asia and in Brazil which we took on during the quarter.

On slide 11, cash flow. Cash held up well and we ended with EUR1.8b of cash on the balance sheet at the end of March. Working capital consumption was in line with our expectations for the full year. The net construction contract balance declined by around EUR100m, continuing the trend of recent quarters. CapEx was in line with the initial plan for the year to spend around EUR400m.

But as you've seen from the press release, we did, during the month of April, take the opportunity to purchase a 50% share in a second Brazilian flagged vessel with our partner DOF. This will be a sister vessel to the Skandi Vitoria and we'll start the payments for that in the next couple of months. And that will increase the full year CapEx from EUR400m to around about EUR475m, EUR480m. So that continues our strategy to opportunistically purchase, we think, strategic assets, and this gives us two Brazilian flagged pipelay vessels for operation in that market.

So we ended the quarter with net cash of just over EUR1.8b. Just looking at the second quarter, please note that we expect to pay our dividend on May 11.

And finally, on slide 12 in terms of backlog, we ended the quarter at EUR1.826b scheduled, as you can see on slide 12. Around EUR3.8b is due for execution during the course of the year. The visibility, I think, for the forward years 2011 and '12 is substantially better than it was a year ago.

With that, I'll hand back to Thierry.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Julian. As I mentioned at the start of this call, not much has changed over the past couple of months. We continue to develop and strengthen our differentiating attributes, most notably by increasing our proximity to local clients, especially in growing markets such as Brazil and the Middle East.

So, combined with our strong balance sheet, we are able to make continuous strategic investment, as you may see on slide 15. In particular, in the Subsea market we have reinforced our logistics capabilities in Brazil with the Port of Angra, located just in front of the Pre-Salt Fields. Port of Angra is a considerable asset and is already being used to support the Tupi gas export pipeline installation.

Additionally, we have purchased a floating crane to enhance our capacity at our flexible pipe manufacturing facility in Vitoria, where we will be producing the infield flexible risers and flowline for the Tupi pilot development for Petrobras that we recently won.

Our construction is advancing well on our third flexible pipe facility, Asiaflex, which will be the only one in the Asia Pacific region. And I already mentioned that we won the first contract that will be manufactured there during the next winter.

We continue to renew and develop our fleet. In past conference calls, we have spoken about the Apache II and Skandi Vitoria. And as Julian said, recently we agreed to add a second Brazilian flagged flexlay vessel, the Skandi Niteroi, with our partner DOF. She will go into service in 2011, after being equipped with our vertical pipe laying equipment.



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With that, we are confirming our 2010 full year objectives, with the Group revenue around EUR5.9b to EUR6.1b, Subsea revenue around EUR2.6b to EUR2.7b, Subsea operating margins above 15% and Onshore/Offshore combined operating margins stable year-on-year.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). The first question comes from Mrs. Fiona Maclean from Merrill Lynch. You have the floor.

Fiona Maclean - Merrill Lynch - Analyst

Thank you. Hi. It's Fiona at Merrill's. I've got a question firstly on the Tupi pilot pipe. Can you give us some color in terms of the competition you faced when you were bidding on this pipe? I'm aware that you're not giving out the value, but can you give an indication on whether you believe you won this award based on price or was it due to your technical capability? And could you also -- as a follow-on to that, could you just explain what your technical offering was on this pipe versus what your competition were able to offer and was your offer superior? So that's the first question.

And then the second question is just on the Onshore business in the Middle East on the E&C side. Can you just give us maybe some clarification on when you expect to see orders coming through in that region, because we've seen a number of delays for the major projects this year? Thank you.

Thierry Pilenko - Technip - Chairman and CEO

Okay. Thank you, Fiona, and good morning. So, first of all, on the Tupi pilot, of course, as you know, there are a couple of players in Brazil, operating in Brazil, for flexible pipes. But you will recall also that we have invested a lot over the past three, four years in qualifying pipes for ultra deepwater and, as importantly, qualifying flexible pipes for CO2 and H2S content, which are both corrosive fluids that we expect will be produced from the Tupi field.

One other important element is that, for the future, Tupi and the Pre-Salt development will require as much as possible integrated management systems into the pipes, which is also another area of research and development that Technip developed over the past couple of years and we'll have further development with the agreement that we have signed with Schlumberger a few months ago.

So I would say, first and foremost, this decision of awarding this contract to Technip was based on the good design and was the result of the R&D efforts that we have put into the project. Okay. So now I will not give you any specification of the pipes. As you know, there will be several different types of pipes, flowlines and risers. But I think for us it's a very significant award which completely confirms our strategy in terms of technology, or more technology and more R&D in the flexible pipes.

Now, as far as the Onshore business in the Middle East is concerned, well, you have seen that over the past 16, 18 months we have actually seen a fairly large number of awards in the Middle East Onshore, led first by the Emirates, then by Saudi Arabia and to a much lower extent by Qatar. There are still a number of awards that need to be done in the next few quarters.

However, I think some of these awards were linked to joint ventures or alliances between Saudi Aramco, for example, and ConocoPhillips, or between the ADNOC companies and ConocoPhillips. And as you've probably seen in the press, some of these

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projects may be delayed as ConocoPhillips has decided to pull out of these projects. So I expect that these projects could be awarded this year but probably not as early as what we thought.

Now, there will be also a few other projects, particularly in the Khafji zone, which is the neutral zone between Saudi Arabia and Kuwait, where we should see some offshore developments.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay. Thank you. And just to go back to the Tupi, can I just confirm whether you were technically the only company able to supply this pipe to Petrobras?

Thierry Pilenko - *Technip - Chairman and CEO*

Well, I think I have to repeat what I say. You know, we certainly have competitors that are capable of manufacturing flexible pipe for Petrobras and they have been doing that for the past few years. But when it comes to corrosive fluids and integrated pipe management, I think we were extremely well placed because of our investments in R&D. So I think we had a technologically superior offer.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay. That's very helpful. Thank you.

Operator

There is a question from Mr. Martijn Rats from Morgan Stanley. You have the floor.

Martijn Rats - *Morgan Stanley - Analyst*

Yes. Hello. Good morning. I have a few questions, if I may. First of all, Julian said that the visibility for one year forward and two year forward revenues is now better than it was a year ago and I can see where he's coming from at the Group level. But it doesn't seem to be true for the Subsea business, where the revenues already locked in for 2011 seem to be somewhat lower than the comparable figure was this time last year. And I was wondering if some of the pickup in contract awards come somewhat later in the year, and at the same time some of the margin weakness that we've been expecting for some time but has been slow to come through still comes through later as well, maybe into 2011 as well.

How do you think about the earnings recovery in Subsea in 2011, 2012? Do we actually need to wait until 2012 before this gets very busy again? In 2011, it looks increasingly to me like that could be quite a tricky year for the Subsea business. I was wondering how you think about that.

And secondly, I was wondering whether you could give us an update on the Floating LNG work you're doing for Shell, in terms of the timing, when that could convert to an EPC job.

Thierry Pilenko - *Technip - Chairman and CEO*

Julian.

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Julian Waldron - *Technip - CFO*

So, Martijn, thank you very much. I'll let Thierry deal with the Floating LNG, but just on your first question. You're right. I do look at the Group overall and I do look at the visibility we have for the Group overall. And I think, compared to 12 months ago, overall, there is a longer tail on our business than there was.

I think, as far as Subsea is concerned, a couple of comments. First of all, we have our objectives for the full year 2010. There's no change to those. We haven't commented on 2011, 2012 and I think it's too early for us to start now. Where we feel -- no, as confident as we felt three months ago is in the general trend of pickup of orders in Subsea. We've seen good tendering activity in the North Sea in the quarter and I think we remain confident that that will gradually translate into order intake for the industry.

Secondly, we've seen Africa more active than it was six months ago, let's say. And again, over time, we'd expect that to pick up into order intake for the industry. Then we have to see what parts of that business Technip will take, but we would expect to play a part in that.

And last but I think by no means least, that the Tupi announcement this morning is one press release on our activity in Brazil but we continue to see a very broad range of opportunities for Subsea in Brazil, across not only flexible for Tupi but also the activity in the other fields, both in the north of the country and in the Pre-Salt and in other areas such as logistics.

Too early to say how that will translate into revenue and margin for 2011. I'm sorry. We'll comment on that later in the year but not now. But the overall trends for the next few years we see as as good or no different than two or three months ago.

Thierry, Floating LNG?

Thierry Pilenko - *Technip - Chairman and CEO*

Yes. So, Floating LNG, I just want to remind you that we signed in July of 2009 pre-FEED studies for a generic project which was to study what should a Floating LNG look like and started some of the more detailed design on this concept. And Shell decided to accelerate the entire process by awarding -- identifying one field and awarding a FEED on a specific field, which is the Prelude field in Australia. And given the progress on this project and the schedule that we have at the moment, I think Shell should be in a position to have both a detailed design and cost some time in the first quarter of 2011.

A final investment decision would be made at this stage. And we continue to see the different players who could be involved in Floating LNG, whether it's Shell, Petrobras or other new players that are emerging, being very interested in this concept. So we will continue to push to win more FEED work and hopefully there will be one or two awards in the next 18 months to two years.

Martijn Rats - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

There is a question from Mrs. Dominique Patry from Cheuvreux. You have the floor.

Dominique Patry - *Cheuvreux - Analyst*

Yes, good morning. This is a follow-up question, actually, on the Floating LNG activity. Given the fact that recently there has been some rumors in the press about a potential size of around \$1.2b, which actually surprised us a little bit as being on the

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low side, is it the range of size of contract that you are contemplating once the full contract would be awarded? So this is my first question.

And then I would like, if you can, a bit more color on the activity you are gaining currently in Canada. You have mentioned that in the Onshore Division you won some small to mid-size projects in Canada, so if you could give us a bit more color on this as well. Thanks.

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. Thank you, Dominique. First of all, those rumors I think were coming from an announcement of our partner Samsung and the \$1.2b relative to the FLNG project was actually for the hull, kind of a rough estimate at this stage of the cost of the hull of the Floating LNG, and this is only one part of it. And I wouldn't say how much it represents, but certainly much less than 50%, much, much less than 50% of the total cost of that floating object. The biggest part is obviously the top side and all the equipment that goes on top of Floating LNG. So don't take this \$1.2b as the cost for an entire unit. This is very, very far from that number.

Now, as far as Canada is concerned, what has happened is -- you'll remember a couple of years ago I did say that the first projects to be abandoned or postponed would be the tar sands in Canada, and this is exactly what happened at the end of 2008. We had a very abrupt stop in some of the projects that companies were planning to develop in a very, very harsh environment and very expensive environment. Well, what has happened is that one of our customers actually reactivated one of these projects on which we had already started to work almost two years, well, actually two years ago. So this is the reactivation of one of these projects.

Now, I think it's a very good sign that the current price of oil now seems to be high enough to reactivate tar sands projects. However, I think it's going to take time and our customers in general in Onshore Canada are going to look very, very carefully at cost and also at resources before they award very large projects.

Another element is that when you haven't had a project for almost two years in this part of the world, you have a number of organizations who were against developing those tar sands that have organized themselves and it's going to be a little bit more difficult to get permitting to develop further those tar sands. So it's a good sign but don't expect an oil sand rush as we saw three, four years ago.

Dominique Patry - *Cheuvreux - Analyst*

Okay. Many thanks.

Operator

There is a question from Mr. Dave Thomas from Citigroup. You have the floor.

Dave Thomas - *Citigroup - Analyst*

Yes, good morning. I've got a couple of questions on currency, please. Firstly, could you just say what the restatement of the backlog in euros was across the quarter because of currency?

And secondly, just looking at your outlook statement, am I right to interpret that, given that your outlook at the end of the fourth quarter said it was at the currency at the end of the fourth quarter and there's been a currency devaluation of the euro against the dollar across the quarter, that actually in dollar terms you're effectively raising your revenue guidance for the year? So that's the two questions on currency.

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And secondly, just a follow-up on the Brazil riser issue. Could you just say what the status is of the qualification for ultra deepwater risers for Petrobras? I thought there were a number of qualification exercises you were going through that might not have any announcements until the end of this year. Thanks.

Thierry Pilenko - *Technip - Chairman and CEO*

Julian.

Julian Waldron - *Technip - CFO*

So, on the first two, currency impact on backlog, the gap -- I think the easiest way to go through this is the gap between revenue and order intake is around about EUR30m. The rest of the movement in the backlog is a mix of currency for the most part, some backlog adjustment, but that's your currency impact on the backlog.

As far as currency impact on revenue is concerned, if you'll forgive me, I wouldn't be as scientific as that. There were a lot of swings in different directions on currency in the quarter relative to a year ago. The overall impact relative to a year ago was fairly minimal and the impact taken all together relative to the end of the fourth quarter, again, I think was more modest than maybe some of the headline numbers would have you impact. So I would say there's no change to our underlying view on revenue for the year, no change that I would signal on that front.

Thierry, second question?

Thierry Pilenko - *Technip - Chairman and CEO*

Yes. On the Brazil risers and Petrobras and the qualification for ultra deepwater, so this qualification is still ongoing. We reported -- actually, at the beginning of the year, we reported that the tests in ultra deepwater in the Gulf of Mexico under Petrobras supervision were successful for our flexible pipes. Now, flexible pipe is obviously the most important piece of the production systems, but there are also other pieces that need to be tested, like the pipe-end fittings and so forth, and those tests are ongoing and the qualification should come some time. Now, whether it's going to come before the end of the year or after the end of the year, I don't know yet, but we are working very actively on that.

What I can say is that those qualifications were certainly strong enough so that we could win the Tupi project for the pilot, which is not at ultra deepwater but it's 2,200 meters of water, which is not a swimming pool either. Okay?

Dave Thomas - *Citigroup - Analyst*

Yes. Okay for that. And just to go back, Julian, on your point about revenues, or my point on revenues, and not to labor the point, it's just that your guidance actually at the end of the year 2009 was using year-end exchange rates, presumably December 31. You've got the same guidance with the end quarter exchange rate and it's moved 6% across the quarter. So that's the point I'm making, that actually, in dollar terms, effectively you're saying your revenues could be higher, which I would say is a positive point to make compared with your competitors who do report in dollars. But I don't need a response back on that. Thanks.

Julian Waldron - *Technip - CFO*

Okay. Thanks for the question. The point's well taken. Okay.

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Thierry Pilenko - *Technip - Chairman and CEO*

Thank you.

Operator

There is a question from Mr. Phil Lindsay from RBS. You have the floor.

Phil Lindsay - *RBS - Analyst*

Good morning. A couple of questions, if I could. First of all, can you say what the total CapEx expected is on the Brazilian Flexlay vessel, also discuss the price on that, whether it was a distressed asset or not that you've been able to pick up? And also, at what point during 2011 is she expected to go to work?

The second question is on the Subsea Division and -- well, for the Subsea industry in general. Based on current tendering activity, do you think that industry backlogs have now bottomed and should begin to grow from here, as these projects that we all know about begin to be awarded?

Thierry Pilenko - *Technip - Chairman and CEO*

Julian, do you want to answer the question about --?

Julian Waldron - *Technip - CFO*

Yes, Phil, thank you very much. On total CapEx, I'd expect the majority of the CapEx to go out this year in respect of the vessel, and that would explain the difference between our initial expectations of spending EUR400m and my expectation that we'll spend EUR475m to EUR480m this year, so that's, roughly speaking, the CapEx in respect of Niteroi.

In terms of pricing, I would view it as a good strategic deal. I don't believe that our friends at DOF are a company that I would describe as distressed in any way. I think we now have two vessels that we own jointly with them and we're very happy with that partnership. But I think we were happy that it was the right time to buy at the right price a 50% share in a second Brazilian flagged vessel for the monetary and profits expectation that we both have against that vessel, but also the strategic advantage to having the second Brazilian flagged such vessel. So that's the answer I'd give to that.

Thierry Pilenko - *Technip - Chairman and CEO*

And the timing?

Julian Waldron - *Technip - CFO*

Q4 2011 is when we'd expect it to be fully installed, completed sea trials and ready for action.

Phil Lindsay - *RBS - Analyst*

Great. Thanks.

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Thierry Pilenko - Technip - Chairman and CEO

And there is already a lot of interest, obviously, from Petrobras to secure such assets, because I think one of -- there are two potential bottlenecks in the development of the Pre-Salt. One is the number of construction vessels that are capable of installing both flexible or rigid pipes in the deepwater, and the other element is logistics. And that's why we thought it was so important for us not only to invest into vessels but also to secure access onshore through the port of Angra. And the first project that we are running out of the port is extremely efficient on this export line for the Tupi project, which is a rigid pipe project.

Now, as far as the Subsea industry is concerned, I think we continue to see a lot of competitive pressure, so it's a bit hard to say has it bottomed and so forth. There are a number of good news. First of all, I think some of the capacity that is coming on the market is going to be absorbed by Brazil and we see a renewed interest in tenders and some tenders coming out from Petrobras. The other thing is there are a number of large projects in Africa and the Mediterranean that are going to be awarded for execution in 2011/2012.

And in the North Sea, it looks like after two difficult and slow years in Norway because of the Statoil/Hydro merger, we start to see a renewed interest on the Norwegian side, with more projects coming from Statoil, which is extremely good. And combined with the good price of oil and activity which is going to be led by smaller players in the North Sea, I think those are good news. But it is very hard to say whether the business has bottomed or not.

Phil Lindsay - RBS - Analyst

Okay. Thank you very much.

Operator

There is a question from Mr. Alexandre Marie from Exane BNP. You have the floor.

Alexandre Marie - Exane BNP Paribas - Analyst

Good morning, everyone. First question on Tupi. Sorry if that has been answered already, but could you just clarify, please, if you expect more flexible pipeline orders on the pilot Tupi project or if that was the only package to be awarded this year?

And second, it seems that Guara will be the next one to be developed and that Petrobras is moving forward with that. Do you have any idea of the timeframe for order awards on Guara?

Thierry Pilenko - Technip - Chairman and CEO

Thank you for this question. I think the Tupi pilot, as you saw, is supply only and it's for the period 2010/2012, so I think with 90 kilometers of pipeline they have probably enough for the pilot. Now, a pilot, by definition, is a project during which we learn. And what's going to be extremely important for us and for our industry is to be able to react very quickly, should there be additional need to provide additional flexible pipes in that project, but I think it's going to cover most of the needs of the pilot.

Now, as far as Guara is concerned, I don't have a specific timeframe. I think it's a question which is more for Petrobras than for us. Obviously, yes, Guara is an important step for Petrobras, so we should see some movement and some decisions this year, for sure.

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Alexandre Marie - *Exane BNP Paribas - Analyst*

Okay. Just to follow up, please, on your tax rate, which was a bit lower this quarter, I think, compared to the previous quarters, could you just remind us what kind of tax rate you would expect going forward?

Julian Waldron - *Technip - CFO*

Alex, around about 30%. It'll vary by a point or two, quarter to quarter, but on a rolling basis around about 30%.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Okay. Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you.

Operator

There is a question from Mr. Alex Brooks from UBS. You have the floor.

Alex Brooks - *UBS - Analyst*

Thank you and good morning. I've got a few questions, largely following up from what's already been asked. Firstly, can you comment on your available production capacity in Brazil for flexi-pipes? You've previously indicated that you were actually still very busy with manufacturing for the Campos basin. Are you now effectively full for this year and next year?

Secondly, you're still investing in installation capacity and a question Phil already asked about the Skandi Niteroi. Do you still have further ambitions to invest in further installation and pipe-lay capability?

And thirdly, I think, Thierry, you made a comment right at the beginning about that there were no specific project closeouts in the first quarter. Are you saying that you expect that there will be some later this year and can you give us any suggestion of which ones those might be?

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. So let's start with manufacturing. We are actually expanding in Brazil. We have one -- we are expanding on the Vitoria site and we have ordered -- that was part of the CapEx that was approved more than one year ago. So we will expand capacity in particular to do larger diameter pipes and be ready for risers.

Now, as far as other investments are concerned, Brazil is a place where we believe there is potential for growth and where we have proven and we have a track record that shows that we can be differentiated and that we can have a good return on investment in Brazil. So if there are other opportunities, either on expanding capacity or on expanding the fleet, we will be looking at them but always with our usual criteria of return on capital.

When we looked at the Skandi Niteroi, we decided to make this investment because of the high demand and because of what we see in terms of offshore activity in Brazil. So, by having two Brazilian flagged vessels, there is another upside here, which is that we can bring a vessel from outside and it will be considered Brazilian. As you know, priority will be given to Brazilian flagged

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vessels, even in -- if you assume, which is very unlikely, but if you assume that at some stage there could be less growth in Brazil, priority will be given to Brazilian flagged assets. And there is a very, very strong push, as you know already, in drilling and in FPSOs to produce those assets in Brazil. So every company that becomes more Brazilian will have a stronger position in the future.

Now, as far as project closeouts, I'll turn it to Julian.

Julian Waldron - Technip - CFO

So there was nothing in Q1. I think the two significant projects which will come to an end this year are Cascade Chinook in the Gulf and Jubilee, and the very final phases of those are around the middle of the year. Before that there's nothing that -- there are probably some smaller ones, but there's nothing that I'd call significant. And the two very long-term contracts, Block 31 and Pazflor, are more for final completion in 2011, even if some of the key offshore phases do begin this year. And therefore, our view of the performance of those projects will become clearer, particularly as we get to the end of the year, as the offshore phases begin. But in terms of strict project closeouts, those are -- the Jubilee and Cascade are probably the two biggest.

Alex Brooks - UBS - Analyst

Okay. Thank you very much. And can I just press you on capacity, because -- so are you saying you actually do still have surplus capacity in the next 18 months in flexible pipe?

Thierry Pilenko - Technip - Chairman and CEO

In Brazil, I think Brazil visibility is excellent, so I don't have the chart in front of me but I don't have concerns about our production capacity in Brazil for the next 18 months.

Alex Brooks - UBS - Analyst

Okay. Thank you.

Operator

There is a question from Mrs. Amy Wong from JP Morgan. You have the floor.

Amy Wong - JP Morgan - Analyst

Hi, good morning. Just a couple of questions. Just a follow-up on the investment in the second Brazilian flagged -- I know, Thierry, you mentioned that Petrobras is very interested in securing a long-term charter. When do you expect that to possibly come through? And in terms of timing and pricing for another long-term charter for that vessel, how is that comparing to the first charter you got for the Skandi Vitoria?

And also, the second question, on the Onshore, can you just remind us, Train 6 and 7 for Qatargas 3 and 4, when will that be complete? And are your provisions for those projects still sufficient to cover these projects until project completion? Thanks.

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Thierry Pilenko - *Technip - Chairman and CEO*

Okay. Well, the interest from Petrobras about new pipelay vessel is high. We are currently answering some tenders. They are tenders that are coming which are more an interest, to try to see what vessels are becoming available and when. I think Julian already answered the question about the timing. It will be in the fourth quarter of 2011 that we will have the vessel fully operational and under contract.

It is still to be defined whether we're going to do a long-term charter, which is one possibility, or whether we're going to use that vessel on the spot market for EPCI projects. We want to keep that flexibility until we have a little bit more visibility on the Petrobras plans. I would say this vessel is going to be very similar to the Skandi Vitoria, so we could expect a similar type of revenue. But we don't divulge the rates on individual vessels like (inaudible).

Now, as far as Train 6 and 7 on Qatargas 3 and 4 are concerned, there have been a number of announcements made by the customer in the past few weeks about the production of these trains. I just want to remind you that we deliver those trains at mechanical completion, so after mechanical completion there are a number of pre-commissioning and commissioning and startup operations that could take a few months, a minimum of three, four months, before LNG is produced. And the plan is to have those two trains deliver in the next few months, first one during the summer and the second one at the end of the summer. That's the current plan, as far as mechanical completion is concerned.

Amy Wong - *JP Morgan - Analyst*

Sure.

Julian Waldron - *Technip - CFO*

Amy, as far as the provision is concerned, I think a one word yes answer is what you need.

Amy Wong - *JP Morgan - Analyst*

Perfect. Thank you very much. That's very helpful.

Operator

There is a question from Mr. Christyan Malek from Deutsche Bank. You have the floor.

Christyan Malek - *Deutsche Bank - Analyst*

Hi. Morning, everyone. Just a few questions, if I may. Firstly, can you -- this may have popped up earlier, but can you clarify what exactly is your CapEx program over the next two to three years, because it appears that there's this going concern about where you want to invest and it also appears in real time? Do you have actually a view of what you want to invest in your installation capacity globally and not just Brazil and what type of installation investment you want to make?

Secondly, and I think perhaps linked to the first question, is it appears Brazil is a relatively important market, obviously, for you and the reasons are there. But is it that easy just to take -- to work with Brazil on collaborating and building vessels and then have the choice to just take them elsewhere, or do you think you'll find -- face resistance or it might upset them that you're actually building stuff but equally hoping to leverage it outside the country if they don't invest as quickly as you'd hoped?

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And thirdly, just regarding your comment around intense competition, it just strikes me that your peers are perhaps saying the same thing but are also focusing on cost reduction. There is some idle time out there. How do you see the structure of the market playing out if investment in projects doesn't all accelerate at once?

And I think more specifically within the Subsea, do you sense there could be a new pricing range evolving, particularly given the supply coming online, new entrants being encouraged by the international oil companies? And not to labor the question, but is that perhaps most acute of this dynamic in Middle East, where projects are being delayed, utilizations are falling and it just seems everyone's trying to scramble to get work?

Thierry Pilenko - *Technip - Chairman and CEO*

Well, that's a lot of questions.

Christyan Malek - *Deutsche Bank - Analyst*

Sorry.

Thierry Pilenko - *Technip - Chairman and CEO*

Looking at macro and micro and let's start with Brazil, because our plan with those vessels, the two Brazilian flagged vessels for Brazil, is to use them in Brazil. And I think we have designed those vessels and looked at what they're capable of doing to service the Brazilian market. I don't know if you have access to the number of thousands of kilometers that are going to be installed in the Brazilian market over the next five to 10 years, but it's a massive, massive number. And I think those vessels will find work in the Brazilian market and at a good rate.

Now, our CapEx program basically has been very transparent. We still have a couple of major CapEx items that will be delivered over the next couple of years. One is our Asiaflex plant in Asia. The other one is the Deep Energy. And in the next few months we're going to take the Apache II, which has already done its sea trials and is ready to -- almost ready to operate, and the Skandi Vitoria in Brazil, which has a long-term, four-year -- at least four-year contract. So that's very clear.

Then we have been opportunistic. We have been opportunistic last year, when there was a distressed asset to replace the Apache. And we have been opportunistic this year, when we saw the market and the demand in Brazil with the Skandi Niteroi. So we still need to have this flexibility when we see that there is some interesting markets.

Now, as far as long-term CapEx is concerned, we will have to evaluate what are the consequences of producing deeper and deeper in terms of lifting capacities and pipelay capacity, but this is more something for the probably 2013/2015 timeframe and we haven't made a decision on this [stream].

Julian Waldron - *Technip - CFO*

Christyan, if I can just add a couple of points on that, I think when we met in Le Trait, I think Thierry made it -- we made it, I think, quite clear that we were continuing to look at specialized vessels that would give us very good execution performance, which is essentially the way the fleet is structured at the moment. And I think that continues to be our focus. And if we can find additional opportunities, we will. But probably, having done two opportunistic deals, the probability is lower that we'll do a third, but we've done two, which I think is good.

I think the only area over the last two or three years where we have put CapEx into a new area for strategic reasons has been logistics in Brazil, to some extent logistics in other areas, but a particularly strong investment in logistics in Brazil. And that's a

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response to the way we see the bottlenecks in that market evolving and a changing view, an evolving view, on what the strategic assets are for that market. And I would say that it's as probable that we'll continue to invest in logistics in Brazil than it is that we'll go for further installation capacity, for example.

Thierry Pilenko - *Technip - Chairman and CEO*

Do you want to answer the question on cost reduction?

Julian Waldron - *Technip - CFO*

You might want to say a few things generally about competition and pricing and supply. But I think just on cost reduction, we continue to look structurally at the overall cost to the Group, and I think that's not just on the Subsea side but it's on the Onshore/Offshore side as well, the engineering costs we have. And that's both a question of making sure we control, or reduce where we can, the costs in the existing engineering centers, but also moving and ramping up our resources in areas which are very good quality but closer to the customer, whether that's India or whether that's Brazil, for example.

In terms of the fleet, we do have a number of specific cost reduction initiatives ongoing this year, which we would expect to contribute to cost reduction for the Subsea business overall. So I think we're mindful that we need to continue to address our cost base, like everybody else in the industry. That's what our clients expect from us. That's what you expect. And I think there are initiatives underway there to achieve that. Thierry.

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. Now, coming back to a new pricing environment because of overcapacity and delays on some projects or on projects in general, we are in that situation today, as we said. The pressure on pricing, the pressure on the cost, the pressure on margin is something that we have seen now since 2009 and it's still pretty much the same situation today.

Now, to say that we are now in a completely new pricing environment for the long term and therefore that could have a major impact long term on the Subsea margin, this is -- we just don't know. We just don't know. I think what we see today is some signs that the market is picking up with some projects.

Now, when are these projects going to be awarded? We think there will be more projects awarded in the second half of this year. Our view hasn't changed on that. But we have also seen that it has been sometimes difficult for certain joint ventures between national oil companies and international oil companies to make decisions and to start again the system, if you want. But I don't think we are in a fundamentally new environment for the long term. I think the differentiation on technology will continue to play a very big role.

And now, as far as the dynamics in the Middle East that you're talking about, at the moment we see these dynamics affecting mostly the downstream business. And after a fairly large wave of projects which is still happening today in onshore, downstream in the Middle East, I think we are going to see maybe a little bit of a pause in the number of tenders, as customers or countries like Qatar and Saudi Arabia are developing their plans for the downstream and petrochemical. I think the next wave in the Middle East is going to be petrochemical.

Now, what we don't know at this stage is whether Yanbu and Shah are going to be awarded and who is going to be the international partner on these projects, because those decisions have been announced very recently.

So we'll take one more question.



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Christyan Malek - Deutsche Bank - Analyst

Thank you very much. Cheers.

Operator

The last question is from Mr. Mick Pickup from Barclays Capital. You have the floor.

Mick Pickup - Barclays Capital - Analyst

Good morning, gents, and thanks for waiting for me. Surprisingly, I've still got a few questions left. Firstly, just on your Subsea, I know you've stuck to your guidance of 15% for the year. You've just done 17% in Q1. You're talking of closeouts in Q2, Q3 and normally those margins are better because of seasonal impact. Now, if I look at consensus, it's above 16% already and probably going up. Is there anything wrong with my logic there?

Secondly, Julian, you've had a great quarter there on depreciation and financing. You said Q1 was down on depreciation. That's the second low Q1 we've had in the couple of years. Can you just tell me if there's something odd in Q1 I need to be aware of for next year?

And thirdly, Pori. I know you mentioned the cost and we see a lot of offshore projects out there. I don't see many spars on the radar going forward. Can you tell me what the outlook for Pori is?

Thierry Pilenko - Technip - Chairman and CEO

I'll start maybe with Pori and let Julian answer the other questions. So Pori has just finished the transformation of the Apache II and we are forecasting low activity for the rest of the year. And we have diversified the activity in Pori but if it has been quite successful it's probably not enough at this stage to have the Pori utilization at full capacity.

Now, as far as spars are concerned, well, first of all, in Pori we have decided that we would do other things than spar and we are gearing up to be able to build TLPs if we win TLPs. The second thing is we have on the radar screen at the moment three spars which could happen in the Gulf of Mexico. We just don't have the timing. And that could be awards for 2011 or later this year, in 2010, but we just don't have very clear timing on the awards of these spars. The only thing I can say is that Pori is the best place to do a spar in the world and Perdido Spar has been very successful for Shell.

So, the other questions, Julian.

Julian Waldron - Technip - CFO

So, Mick, thank you. On Subsea, I think it comes down to project execution. I think we've always said that the 15% is the floor. If we execute well on projects, then we would hope to push up from there. But project execution is around the offshore phases of these projects and it's too early to tell whether or not we'll have the project execution that we want. But that remains, as in the last couple of years, I think, the critical factor.

Over and above that, on depreciation, it's a fair question. I don't see any particular seasonality, if that's one way to look at it. I would recommend that you continue to take the EUR160m, EUR180m, split it by four, and if there are variances we can explain them. I think in this quarter it is because of the gap between the accelerated depreciation we took last year and the arrival of the two new boats, but I don't see any particular reason for that to be structural.

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Mick Pickup - *Barclays Capital - Analyst*

Thank you very much.

Julian Waldron - *Technip - CFO*

Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you again for attending our conference call and have a good day.

Kimberly Stewart - *Technip - VP, IR*

Ladies and gentlemen, this concludes today's conference call and we'd like to thank all of you for your participation. As a reminder, a replay of this call will be available on our website in about two hours. You are invited to contact Technip IR, should you have any questions or require any additional information. Once again, thank you and please enjoy the rest of your day.

Operator

Ladies and gentlemen, thank you for your participation in today's results conference call. We would like to clarify that a replay for 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 +331 72 00 15 00 or +44 20 37 367 9460 or +1 877 642 3018 using the confirmation code 269894#. The replay will be available for two weeks. Thank you all and goodbye. You may now disconnect.

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