

FINAL TRANSCRIPT

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PRESENTATION

Thierry Pilenko - *Technip - Chairman and CEO*

Good morning, ladies and gentlemen. Thank you for participating in Technip's conference call. I'm Thierry Pilenko, Chairman and CEO of Technip. And with me are Julian Waldron, CFO, Henri (inaudible) our Deputy CFO, as well as Kimberly Stewart and Antoine d'Anjou from our Investor Relations Team.

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

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Kimberly Stewart - Technip - VP, IR

Thank you, Thierry. I would like to remind participants that you can download the 2009 third quarter 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 from historical fact 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 press release and slide presentation.

Also, a replay of today's conference 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. The third quarter showed many of the factors that have characterized 2009 for Technip. We passed major milestones on a number of key projects and generally executed well. We also continued the renewal of our backlog.

Financially, we delivered a margin above 10% and generated very good cash flow. So let's look in more details at our operations.

Starting off with the Subsea business segment on slide 4, which continues to have excellent operational execution. During the third quarter we are successfully completed the offshore operations on White Rose North Amethyst project for Husky in Canada. Offshore operations started on Cascade and Chinook in the Gulf of Mexico, where flow lines have been successfully installed. The buoyancy cans are en route from our yard in Pori, Finland and freestanding hybrid risers will be installed this winter.

Engineering, procurement and fabrication for offshore operation in 2010 continued on Pazflor for Total and Block 31 in Angola for BP, as well as for Jubilee in Ghana. Furthermore at our new logistics hub in the Port of Angra in Brazil, the first shipment of 18 inch pipes have arrived for the Tupi gas export pipeline project, which will be installed in the first half of 2010.

Our vessel utilization rate was good at 85% during the third quarter, compared to 86% a year ago. We continued to have good activity at our flexible pipe production units in France and Brazil. And manufacturing procurements costs reduction program is continuing. Our ultra-deep water flexible pipe qualification program is ongoing and offshore tests are currently being performed in the Gulf of Mexico.

As you can see on the graph, Subsea order intake was EUR478m and included part of the Jubilee program in Ghana. We've told you during previous conference calls that we've been working on this project for nearly all of the past year. The order intake also had diverse projects in the Gulf of Mexico and the North Sea, including the Isabela project for BP, Appaloosa for ENI and Olsevar for Dong. This brings the backlog to above EUR2.8b for the third quarter but excludes the recently signed Goliat for ENI in Norway and the remaining part of the Jubilee project.

As many of you know, we have been working for much of the year on the Jubilee project under the letter of intent. We signed the contract recently in the fourth quarter and so we can talk more openly about it. It's a significant deepwater project in Ghana for our clients Tullow, Kosmos and Anadarko. It is an [EP] contract and involves two of our flagship vessels, our Le Trait flexible pipe plant and our engineering and logistic resources in Houston, Paris and West Africa. This is a very good example of the seamless integration of our subsea activities.

Moving on now to the Offshore business segment, we have three main projects to highlight. The Hywind platform offshore Norway for Statoil which was inaugurated during the third quarter. Also we are commissioning the P-51 semi-sub platform in Brazil and the systems' transfer to Petrobras are ongoing. Lastly, engineering and procurement were completed and construction progressed well on P-56 semi-sub platform in Brazil.

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Again, we have completed and closed our Akpo FPSO project. The Offshore order intake was EUR221m. This included the award of the Shell floating LNG engineering contract and several small and medium-sized projects in North America and Asia Pacific. In Brazil we have started work on the P-58 / P-62 FPSOs engineering contracts for Petrobras. This brings the Offshore backlog to EUR458m at the end of September.

So turning to slide 7, we are pleased we signed the floating LNG award with Shell and the point I want to highlight is that this contract demonstrates Technip's broad ranging and unique combination of skill and technology in all three of our business segments.

Let's take a closer look at the Onshore segment, where several key operational milestones were achieved. And let's start with the three LNG projects in Qatar. We closed out the Qatargas 2 contract during the third quarter and our client confirmed that LNG production started on Train 5 in September. As a reminder, in March of this year, production had started on Train 4.

Meanwhile on Rasgas 3 Train 6, our client confirmed that the first LNG production started in late July and this train was inaugurated in October. On the remaining three LNG trains, commissioning started on Rasgas 3 Train 7, while construction continued on Qatargas 3 and 4 Trains 6 and 7.

Some of you have asked questions about these projects since our JV partner's comments about three weeks. I would like simply to reiterate that we remain comfortable that the charges we have taken on the three LNG projects are adequate to cover the losses on the contracts to completion.

In Yemen, the first train of the LNG project was turned over to the client and they announced that the first shipment of LNG departed Yemen on November 7. Construction of the second train is being completed. Commissioning is nearing completion on Saudi Arabian Khursaniyah gas plant Train 1 and pre-commissioning started on Train 2.

In Vietnam, performance tests are ongoing on the Dung Quat refinery, which is producing kerosene, diesel and LPG. Meanwhile, numerous other projects have made progress, in particular construction progressing well on the Gdansk refinery for Grupa Lotos in Poland. The OAG modules are being installed and connected on Das Island in the UAE. And lastly, construction activities on the biodiesel plants for Neste Oil in Rotterdam and Singapore are advancing.

Order intake this quarter for Onshore was EUR2.5b which included several small and medium-sized projects. And turning to slide nine you have more details from the two contracts signed with Saudi Aramco and Total for the Jubail refinery in Saudi Arabia, for roughly EUR2.3b. This is a project that we know well, having done the FEED for nearly three years before the award and it is with a client and a country that we are very familiar with. So the ramp up phase of the project is going well.

So this brings the Onshore back log at the end of the third quarter to EUR4.2b and that covers the operational highlights of the quarter. I'll now turn you over to Julian, who will go over the financial items.

Julian Waldron - *Technip - CFO*

Thierry, thank you very much. First of all, I'll make most of my comments relative to performance in the third quarter, rather than for year to date. Year to date information you can find in the annexes to the press release.

As far as revenue was concerned, revenues were EUR1.7b against EUR1.9b last year. Currency impact this quarter was relatively small, although we are by a small majority a dollar-based business with a -- rates for this quarter were quite similar actually to those a year ago. Sterling is a little bit weaker, on the other hand the real in Brazil is a little bit stronger, so the currency impacts over all, relatively small.



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Profitability of the Group improved. The EBITDA margin increased by 2.2 percentage points against last year and the operating margin was up by 82 basis points. And after financial charges and a 30% tax rate, in line with our expectations, EPS was EUR1 in the quarter.

Order intake, as Thierry has mentioned, was EUR3.2b, of which nearly EUR900m was from contracts other than Jubail and the backlog at EUR7.5b is higher than at the start of the year.

Lastly, we generated cash flow in the quarter and our net cash rose by EUR115m to EUR1.676b at the end of September. I'll now take you through some of these points in more detail, beginning on slide 12 with Subsea.

As Thierry mentioned, we had good progress on existing project execution, pretty much across the board in Subsea. The EBITDA was nearly flat on an absolute basis and the EBITDA margin rose. Operating margin was down. Within the margin evolution, on the one hand a positive impact of good profitability and good execution on projects towards the end of their life. But as you have seen in the press release, we also took an accelerated depreciation charge on some of our older assets, notably our older fleet assets, on the other hand.

The accelerated depreciation gives us, we think, some additional flexibility going forward on how we manage, upgrade or replace those older assets. And as you've heard us say and as you saw us act in Q2, we are, if we can, keen to take advantage of current markets to invest and renew our fleet.

If you strip out these positive and these impacts of projects and accelerated depreciation, the published operating margin represents a good proxy for the underlying level of profitability in Subsea in the quarter.

Turning to Onshore/Offshore, the individual figures for the two segments can be found again in the annex. Combined revenues declined around 16%. This is in line with previous quarters and the evolution of our large Onshore projects. Profitability, however, rose by nearly a percentage point and was over 5%, so we remain very much on track to hit our 2009 target with an expanding operating margin for Onshore/Offshore that we set at the beginning of the year.

We had more revenue this quarter from legacy contracts, with a zero contribution, notably with the close out and sale of the Qatargas 2 projects. And over 30% of the Onshore/Offshore revenue came from such non-contributing legacy contracts. Profitability on the rest of the project portfolio and notably the smaller and medium-sized projects continues to be good.

Clearly in Offshore, a small amount of absolute euro profit makes quite a significant impact on the margins. The gross margin mix this quarter from non-legacy contracts is a little higher in Offshore and lower in Onshore. And this mix will continue to vary as we go forward. There was higher selling and tendering costs in Onshore and there were lower selling and tendering costs in Offshore. And that impacts the OpEx charge to those two segments. But overall selling and tendering costs leveled off after the rise in H1.

Turning to the Group income statement on slide 14, we had an additional charge to G&A this quarter of stock option costs of EUR3m, I'll note that. Underlying operating profit, sorry, underneath operating profit we had lower interest income on our cash deposits reflecting the interest rates in the market. Interest income taken to projects was EUR12m in the quarter, compared to last year's EUR20m.

We continued and will continue to have fluctuations in the financial charges line, as we account for the fair value of hedging instruments under IAS 32. And our tax rate was in line with expectations at 30%.

Looking at cash flow, cash flow was positive in the quarter. CapEx was EUR62m and this is in line with our expectations for the full year. At the beginning of the year we expected to spend slightly below EUR400m for the planned CapEx and that remains the case. And then the Apache 2 replacement vessel that we bought in Q2 is on top of that. And our net cash at the end of the quarter was just short of EUR1.7b.



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We'd expect to end the year, therefore, with a much better level of cash than our previous indication of EUR1b. The exact number will depend on, for example, the level of advances on new projects in the fourth quarter. But our cash position is a little ahead of expectations.

On slide 16 to close, concerning scheduling of the backlog, we've had around EUR5b of revenue year to date and we have about EUR1.4b in backlog for the last quarter. So this underpins our full year expectations for revenue. And we had at the quarter end over EUR6b of secured backlog for years beyond 2009, of which EUR3.78b was for the coming year 2010.

With that I'll hand back to Thierry to discuss the end of current year and give our initial comments on 2010.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Julian. Turning to slide 18, after a good quarter for both Subsea and Onshore/Offshore, we look forward to a satisfactory close to the year and we fully expect to meet our 2009 year target.

On the next slide you can see that we have made significant progress in renewing our backlog during third quarter. The Jubail refinery award pushed the original distribution and refining market percentage up in the Middle East but that was fully expected. Since the end of the quarter our momentum has continued, notably with key Subsea awards on the Goliat and Jubilee projects. We have improved our visibility in terms of both revenues and man-hours.

Accordingly, Technip expects to enter 2010 with a solid and balanced backlog. As regard 2010, there is no doubt that there are uncertainties in the oil service industry. Final investment decisions are still slow, as clients await greater visibility in oil and gas prices and continue to seek cost reductions. Competition remains intense and there are new entrants in many markets.

So we all anticipate that these trends will weigh on the industry in 2010. Analysts are already taking this into account in their 2010 expectations, including for Technip. And indeed such views reflect our initial expectations for Group revenues and margins next year.

However, we also see a number of opportunities for Technip in 2010. Firstly, some key markets should remain fairly robust. Brazil and the Gulf of Mexico for Subsea, the Middle East for Onshore projects but there are also new opportunities in other regions, such as North Africa, India and Asia Pacific, Australia in particular.

Secondly, some of our customers have started showing real concerns about missing their production targets and reserve renewal. Therefore in general it appears very likely that project awards will pick up in the second part of next year, assuming a certain stability in oil prices over that time.

At the start of 2009 we said that despite the market uncertainty, we would keep our operational and strategic focus, confident that this would drive superior performance and improve our competitive position. A year on we believe the same approach and focus are appropriate as we set out our priorities for 2010.

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

QUESTIONS AND ANSWERS

Operator

The first question is from Dominique Patry, Cheuvreux. Dominique Patry, please go ahead with your question.

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Dominique Patry - CA Cheuvreux - Analyst

Yes, good morning. I just would like maybe to have more color on the new entrants you see in many of your markets. Is it mostly in the Onshore segment or do you see other newcomers in your Offshore and Subsea division?

And I have also another question on the Subsea margin. Given the fact that on a year-to-date basis you are well ahead of the 18% guidance, I was just wondering what is still underpinning your relative cautiousness as of the fourth quarter? And if you have any indication with regards to the potential downside we should expect in the Subsea segment as we go into 2010? Thanks.

Thierry Pilenko - Technip - Chairman and CEO

Okay, thank you. I'll answer the first part of your question, Dominique, about the new entrants and Julian will talk about margins. So in the Subsea business we will see new entrants which are mostly, I would say, ship owners who have decided to invest sometime at the peak of the market into some new assets. So we have started to see new entrants with light construction vessels, which is not really a market we are in. In fact this is a market where we generally sub-contract. And therefore these new entrants are rather good news for light construction.

Now some of those new entrants are also targeting the higher end, with heavy construction and pipelay vessels. However, what we saw over the past 12 months is that many of these vessels have seen some delays in construction. So those entrants are coming but much more slowly that what we anticipated say a year ago or 18 months ago.

Julian, you want to answer further question on margin?

Julian Waldron - Technip - CFO

On margins, I think for Q4, Dominique, we come back to execution. During the quarter of this year we have had good execution and that's been the primary driver of our margins being above our initial expectations. We've got some important offshore campaigns in Q4 and I think we would like to see how those come through and that reflects -- that drives our comments on expectations for the full year.

As far as 2010 is concerned, I think at this stage we would like to keep our views qualitative. We'll be more quantitative in February. I think what we tried to do today was to indicate that when we look at how we see our markets in 2010 and when we look at what the analyst community is expecting, we see no disconnect. And we'll look to be more, more explicit, more quantitative come February.

Dominique Patry - CA Cheuvreux - Analyst

Okay, thank you.

Julian Waldron - Technip - CFO

Thank you.

Operator

Mr. Dave Thomas, Citigroup, please go ahead with your question.

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David Thomas - Citigroup - Analyst

Yes, good morning, everyone. I've got a couple of questions please. Firstly on the Offshore margin this quarter is obviously very strong. Potentially I guess because of Akpo. Can you say what you'd expect going forward? What's a normalized margin there?

And secondly, on PKSJ, given that two of the four joint venture partners have either been fined or made provisions for litigation, your stance does appear somewhat relaxed, I would say. And could you provide some commentary around this, thanks?

Thierry Pilenko - Technip - Chairman and CEO

Julian, you want to answer the question on margins and I'll take the JV question?

Julian Waldron - Technip - CFO

On Offshore, there were a couple of projects towards the back end of execution and one Akpo which was definitively closed out. It doesn't take a large absolute amount of provision release, for example, to make a difference to the Offshore margin. So I wouldn't read a step change in any way into the quarter three.

Overall, I think we look at the Onshore and Offshore segments together and we stick to our target to improve the two combined. Some quarters it'll be the Onshore helps more to do that, some quarters it will be Offshore that helps us more to do that more. But the two businesses have the same business model and so we think it makes sense, quarter by quarter, to look at them together.

There are one or two things in the third quarter but in an absolute dollar basis it's not particularly material. Thierry?

Thierry Pilenko - Technip - Chairman and CEO

Yes, on your question about PKSJ, I will not make comments about our other partners. We were four partners in this joint venture but it is a fairly complex case and I think there are differences between the different partners. What I would like to say is that first of all it's an old story which started back in 1994. And the investigation started in 2004 and has been ongoing since 2004, both in the US and France. And we have been -- Technip has been cooperating fully with the US authorities in particular. And I would say that it is an issue that is part of the legacy and the sooner we can put it behind us, the better. And that's all I can say at this stage because we are in the middle of the investigation.

David Thomas - Citigroup - Analyst

Okay, thanks, Thierry.

Operator

Miss Clara Maclean, Merrill Lynch, please go ahead with your question.

Fiona Maclean - Merrill Lynch - Analyst

It's actually Fiona Maclean. I've got three questions. Firstly, in terms of the intense competition you're seeing, could you give us an indication of which segments of your business that is?

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Secondly in terms of complete utilization going into 2010, are they going to be at comparable levels to 2009?

And then my third question is on the flexible pipe business. Could you give an indication of your utilization at your facilities and when you expect to see an improvement in order intake?

Thierry Pilenko - *Technip - Chairman and CEO*

Okay, I'll take the question on the competition first. I'm not sure I got the first one but -- so the competition that we have seen intensify, I will take a couple of examples. First, as there has been less project being sanctioned, particularly onshore, over the past 18 months to two years. In the areas such as the Middle East, where projects were going ahead, we have seen new entrants which are actually not so new but they are more aggressive, I would say, in this region.

Such as Korean contractors that have been pretty present in Kuwait historically and are now moving more into Saudi Arabia, the United Arab Emirates and possibly Qatar. So these are the type of new entrants that we see in the onshore business.

In the subsea business, I think I already answered the question when Dominique Patry asked the question at the beginning, which are mostly ship owners who are trying to get into the subsea business. However, I do expect that this competition may be a little bit short lived in the sense that it takes a little bit more than a couple of vessels to become a subsea company. So that's the type of new entrants that we see in the competition.

As far as flexible pipes are concerned, well, first of all, what I'd like to say is that we haven't seen a major slowdown of orders on flexible pipes. There has been less projects and some projects being postponed but our workload in our factories is still pretty good, both in France and in Brazil.

Now, I expect that over the next six to nine months we will see again some major awards, including some large contracts and we have seen some of those large contracts being postponed by six to nine months. Talking about West Africa, talking about Australia, for example. But also obviously Brazil and some projects in the Gulf of Mexico.

So our backlog was pretty strong on the flexible pipe side and we continue to deliver.

Julian Waldron - *Technip - CFO*

Thierry, the third question was on fleet utilization. Without giving, again, I don't want to give any particular numbers for 2010. But fleet utilization has been good in 2009 and looking ahead we've got a pretty full schedule for most of the fleet, in particular the flagship vessels, for 2010. So I think in Subsea we have good visibility looking ahead.

Fiona Maclean - *Merrill Lynch - Analyst*

Thank you very much.

Operator

Mr. David Phillips, HSBC, please go ahead with your question.



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David Phillips - HSBC - Analyst

Thanks, good morning. A couple of questions again on the Subsea side. Firstly, I know you won't put any numbers on this, but just to get an idea of your view on activity levels for IRM and DSE work in the North Sea next year. Do you think that's going to be sort of a rather down year or do you think it might actually work out to be roughly flat, year on year?

And secondly, you mentioned this just very briefly actually, on the call, in terms of your work on ultra-deepwater testing for flexibles. This is in the Gulf of Mexico, I think and I wonder if you could just talk a bit more about how far that project's coming through, and when you might have some rather firm news on it? And also are you going to actually -- or is there any simultaneous testing alongside that for handling higher CO2 content? Thank you.

Thierry Pilenko - Technip - Chairman and CEO

Okay. First of all, on the IRM DSV in the North Sea, I think this is a business which is fairly recurrent. So I foresee that 2010 should be still okay in terms of activity for these types of activities. Where we have seen a slowdown in the North Sea, and as early as last year this period, was in new projects. But now that we look at the list of potential new projects for 2010, or to be awarded in 2010, we see that both the UK and Norway will be picking up in awarding projects.

So I would say stable IRM DSV activity. A little bit of slowdown because of the slow award of new projects in 2010. But then pick up of order intake.

I guess one of your questions was about testing our flexible pipes in ultra-deepwater. So this testing is ongoing in the Gulf of Mexico with Petrobras. It is too early to talk about the final results, because we have several diameters that we want to test. But I would say that the test results are pretty encouraging. We should be able to give you more flavor and more color on that at the end of the year when we present our fourth quarter results.

David Phillips - HSBC - Analyst

Okay, thank you.

Operator

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

Christyan Malek - Deutsche Bank - Analyst

Good morning, gentlemen. Two questions if I may. Firstly, it appears that your backlog cover, revenue visibility and implicitly the activity of your vessels is actually fairly robust into next year. And I wonder if you can actually put some color on the risk ahead and the terms and conditions of contracts signed, and basically the quality of that backlog which will drive your margins next year. Because this is where it appears the black box is. It's not necessarily in revenue, but just what extent is your margins or pricing or if you want to talk about terms and conditions how is that going to evolve across next year for you?

And the second question is around the assets that you are looking to buy on a distressed basis. What is your wish list in terms of assets you'd like to buy, and why those particular assets.

Thierry Pilenko - Technip - Chairman and CEO

Okay, you want to answer first question, Julian?

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Julian Waldron - *Technip - CFO*

I think there is a couple of comments to make. The customer base, as we've said throughout the year, has been very focused on pricing this year, project pricing and cost reduction on their projects. And we believe that has been and that will remain for a while their principle focus. And we have said before, and I am happy to repeat it, we've not seen a material shift in the quality of risk taking that -- this year compared to prior years. And by that I mean, for example, if we look in the North Sea areas around taking risks on weather, those things have not materially shifted year-on-year.

So, focus is very much on pricing. I think we've said in prior conference calls, clearly when pricing is under pressure you may not be able to keep the same level of contingencies that you've had in previous years. That's been one of the reasons why we've been looking to focus notably on the onshore side on projects that we know well, and on smaller projects and FEED to make sure that that risk is contained. So we are very focused on those aspects.

And I think we entered the year, as Thierry mentioned in his comments, pleased with both the size, the balance and the overall composition of the backlog. I think that's a positive response to your question.

Thierry Pilenko - *Technip - Chairman and CEO*

And Christyan, as far as the assets are concerned I think what we did with the Apache is a fairly good example of what we want to do. Basically, we are targeting assets which allow us to renew our fleet and bring the level of innovation that is required in particular to go to deeper water, or to be able to install both flexible and rigid pipes, as we believe that these two technologies will continue to coexist at the various depths.

We also see that the subsea loads being manifolds, pumps, separation separators and subsea processing in general, those loads are increasing, and the water depth is increasing. Therefore, it is important to have heavy lift capacity which is going into the right direction. So we are targeting more these high-end assets as far as floaters or vessels are concerned than the light construction vessels, where I already said that there were a number of players coming with capacity and here we would rather rent than own those vessels.

Another type of asset that we will be targeting are everything that gives us better logistics and local content. And I am thinking particularly about Brazil here. And where we access to logistic bases and access to space on the shore is becoming more and more critical for the seamless integration of our operations for the subsea business.

And in fact our experience with -- our acquisition of last year with Angra Porto has been extremely positive in terms of the logistics that it provides. For example, on the 2P project where we are lining up the 18 inch pipes for an export line of about 216 kilometers I think, it's -- this Angra Porto logistics base is a very important asset for us. So that's the type of assets that we are targeting.

Now if -- when are we going to execute that, we will see what the opportunities are.

Christyan Malek - *Deutsche Bank - Analyst*

Brilliant. And just a follow up on -- it sounds to me that if risk sharing hasn't really shifted. And pricing I don't sense an over-bearishness on pricing either that, with good execution into next year, you can actually repeat the margin levels of this year. Would that be too ambitious, because I don't sense that things have structurally changed perhaps to the extent that the market would suggest?



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Julian Waldron - *Technip - CFO*

I think we need to stick with what we said in the press release this morning. I think it was quite clear in terms of our expectations and the market's expectations for 2010 look pretty much in sync to us. This year isn't finished, so there is still a lot to learn over the next three or four months. And I think we'd like to comment more qualitatively, quantitatively when we get into February.

Christyan Malek - *Deutsche Bank - Analyst*

Okay, fair enough. Thank you.

Operator

Mr. Ian Macpherson, Simmons, please go ahead with your question.

Ian Macpherson - *Simmons & Co - analyst*

Hi, good morning. I was curious if you could comment with more specificity with regards to how much revenue you've taken in on Jubilee so far? And how much revenue scope, at least in a general sense, remains in front of you?

Thierry Pilenko - *Technip - Chairman and CEO*

Well, we won't communicate on the contract amount because this is confidential. It's several hundred million, and the project is ongoing. So far it has gone extremely well. But as you know in subsea projects we know when a project has gone well only when the installation is completed, because most of the risk on any subsea project is actually during the installation phase. But so far this project has been extremely smooth.

The relationship with the customer is excellent. And the speed at which our customers are executing this project is absolutely amazing. I think this is probably -- if we continue at this speed this is probably going to be a reference project between discovery and first off.

Ian Macpherson - *Simmons & Co - analyst*

Would you anticipate getting to your, I guess, your first 25% recognition milestone on that by say the first quarter or are you already there?

Thierry Pilenko - *Technip - Chairman and CEO*

I would not comment on the margin recognition on a project by project basis. But --

Julian Waldron - *Technip - CFO*

Too early I think (multiple speakers) but we are at an early stage in terms of margin recognition on the project.

Ian Macpherson - *Simmons & Co - analyst*

Okay. And then with regard to the Shell FLNG project, could you hazard a guess as to what timeframe you might expect the first -- firm investment decision on that?



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Thierry Pilenko - *Technip - Chairman and CEO*

Well I think this is a question you really need to ask Shell. Obviously, Shell has entered into this project and this contract for a 15 year period with Technip and Samsung. So they are very, very serious. And they do have the resources where the technology can be applied.

Why is it important for us is, of course, the 15 year contract, but it's very significant in man-hours even if in the order intake today you just had the FEED part of the project, which is going to last for about 12 to 18 months. And final investment decision is obviously Shell's decision. And I think at the moment they are scheduling something, somewhere around the beginning of 2011.

Ian Macpherson - *Simmons & Co - analyst*

Okay.

Thierry Pilenko - *Technip - Chairman and CEO*

But there hasn't been a decision made to date. This decision will be made in early 2011 the first quarter.

Ian Macpherson - *Simmons & Co - analyst*

That's great, thanks. And then one more quick follow up if I may for you, Julian. You referenced the accelerated depreciation in the Subsea segment in the third quarter. Could you comment on the run rate for DD&A there for the fourth quarter and ahead?

Julian Waldron - *Technip - CFO*

There has historically been around a 5 point margin difference between operating income and EBITDA, and we recommend -- we would expect that to continue to be the case going forward.

Ian Macpherson - *Simmons & Co - analyst*

Perfect, okay. Thank you very much.

Operator

Mr. [Jean-Luc Romain], CM-CIC Securities, please go ahead with your question.

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

Two questions on Brazil, please. You have successfully bid two FPSOs, I think, P-51 and P-f2. You are building P-56. You are studying P-58 and P-62. Any interest in the potential for many FPSOs coming from the pre-salt developments. And what about FLNG in Brazil I guess you are also in the contest with -- which has always been -- was launched by Petrobras.

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Thierry Pilenko - *Technip - Chairman and CEO*

Okay. So Pierre, we have been obviously very, very present on the design of the larger platforms and the semi-sub for Petrobras. Obviously the market in Brazil will be extremely significant over the next 20 to 30 years. And it will include -- I think this market will include different types of floaters. Standard FPSOs, all actively generic FPSOs where Petrobras will go with lease model. Very large platforms, such as the ones we have been working on P-51, P-52, P-56.

With the award of P-58 and P-62 it shows that our technology and our know-how is recognized by Petrobras. And obviously has -- Petrobras has communicated recently about the potential for very significant gas reserves in the pre-salt, which means far away from the coast and far away from any gas infrastructure, there is a good potential for floating LNG.

And today Petrobras have launched tenders for design of floating LNGs and we have bid. The outcome of this bid -- of these tenders will be known in the next few months, I guess.

Operator

Miss Amy Wong, JP Morgan. Please go ahead with your question.

Amy Wong - *JPMorgan - Analyst*

Hi, good morning. I have a couple of questions. The first one is could you remind us of your foreign exchange hedging policy? And looking at your backlog right now and where exchange rates are now how could that affect maybe your 2010 numbers?

And also my second question is on your third party costs. So it looks like your Subsea margins are very well ahead of expectations. It looks like you've benefited from some reduction possibly in your third party costs there. So can you give us some insight into what's happening in that market, and how long can we expect those benefits to come through for the subsea division? Thanks.

Thierry Pilenko - *Technip - Chairman and CEO*

Julian?

Julian Waldron - *Technip - CFO*

On hedging two different things, firstly, translation exposure we look at that and consider that as a non-financial exposure. It's simply the translation for reporting purposes of foreign currency revenue into euros. Our numbers swing on a headline basis because of that, and will continue to do so.

As I mentioned the dollar was roughly in Q3 at about the same level as it was in Q3 a year ago. So the impact this year relative to last year has been minimal. Probably around half of our revenues are in contracts either directly in dollars or in currencies which are fairly closely linked.

As far as the economic risk transaction risk is concerned we have a clear and quite strict hedging policy. When we have a mismatch or an estimated mismatch between the currency of invoicing and the currency of cost we hedge that and we hedge that upfront. And we do that on a project by project basis. So for all projects in backlog which are confirmed, if there is a mismatch between the currency of invoice and the cost that will have been hedged.

And then as you go through the project, however long that project is, if your initial estimates prove to be right then you are fully hedged. If you've got changes in estimates then you will add or takeaway additional hedging. So for the backlog the mismatches of currency are fully hedged for the life of the project.

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Thierry, third party costs?

Thierry Pilenko - *Technip - Chairman and CEO*

Yes. As far as third party costs are concerned in the subsea business I would divided this question into two parts. First of all the raw material part for the flexible pipes and also the rigid pipes, so when we have projects with rigid pipes.

So, we have seen good progress in reducing our cost of raw material. However, we think that now these costs are leveling in the sense that we start to see, in fact, some very small increase on some raw materials such as steel. So, it looks like we have reached a plateau here.

Now, the other element of third party costs is obviously support vessels and logistics in general. And in support vessels, light construction vessels and so forth, here we have seen a significant reduction in cost or in prices from third parties, which can be anywhere between 20% to 30%.

Amy Wong - *JPMorgan - Analyst*

Thank you very much. That's very clear.

Operator

Mr. Henry Tarr, Goldman Sachs, please go ahead with your question.

Henry Tarr - *Goldman Sachs - Analyst*

Hi there, I have two questions. Firstly, backlog for execution in 2010 in Subsea is roughly the same today as it was at Q3 '08 for 2009. But you are talking about sort of lower revenues in 2010. I just wondered what the swing factors will be here. Is it just lower order intake over the next six months or pricing?

And secondly, there are some significant potential awards in the onshore over the next 12 months. I am looking at the shale deals, the [Ambi] refinery along with Shell FLNG potentially. What would your capacity be onshore here and in the onshore and offshore facilities in terms of backlog? Could you manage all of these contracts alongside Jubail? Thanks.

Thierry Pilenko - *Technip - Chairman and CEO*

Do you want the question on --

Julian Waldron - *Technip - CFO*

On the first question, a little bit of both I think I would tend to say. We've had a good year so far in terms of order intake. We've had a little bit of good momentum at the beginning of Q4. We see clients still spending a lot of time on tendering and taking their time to convert those tenders into actual awards. Thierry mentioned that point on the North Sea and I think it's a good example. Tendering activity in the North Sea is very high, conversion rates of tendering into orders is relatively low.

And there continues to be a pressure from our customers on prices. So both of those things I think dictates our initial views on what 2010 might be. Spare capacity?

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Thierry Pilenko - *Technip - Chairman and CEO*

Yes. As far as onshore is concerned and the potential awards for onshore we will continue to see a good flow of projects and awards from the Middle East both in refining but also in petrochemical, for example in Saudi Arabia, refining both in Saudi Arabia, in Qatar and as we see as we speak in the UAE. So the Middle East market will continue to be strong. But it's going to continue to be competitive.

What is interesting is what is happening with the LNG market. And I'd like to make a couple of comments on the gas market, because a lot of people are depressed about the gas market, because particularly gas in North America is still at a very low price and therefore there is very little drilling. And when there is drilling it's going to be in the new place in the shales and so forth in the new resources. And we see more LNG coming into the market. The -- Qatar is one example, but we've seen other trains being developed and put in production. So there will be a number of projects that in terms of drilling will be continuously postponed in the North American market.

But at the same time when we talk about LNG there might be another supply for a while, but the projects that our customers are talking about are not for production between 2010 and 2014, they are projects where production is going to be beyond 2014 where we start to see that the demand for gas will be strong.

Therefore, we see -- it may sound a paradox in a market which is very depressed, but customers are making commitments over multi-billion projects such as [Gaugen] and Ichthys and others, but these are for the market which are beyond 2014/2015.

Therefore, we are going to see in the next few quarters a number of LNG projects going forward onshore. And the same logic applies to floating LNG. Again this is not for tomorrow or for 2010 and 2011 production it is for production in 2014, 2015.

So this is going to give us a number of opportunities. However, we are going to continue to stick to our policy to take a number of projects in countries that we know well for customers that we know well, and where the risk profile is adequate to us. So, even though the competition is identifying in the Middle East, for example, we will be targeting the projects on which we believe we can be profitable and where the risk profile is acceptable.

Henry Tarr - *Goldman Sachs - Analyst*

Okay, great. Thanks.

Operator

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

Martijn Rats - *Morgan Stanley - Analyst*

Yes, I only have two housekeeping questions left. First of all, can I ask you what's the impact on financial charges is from IAS 32, 39? I couldn't find that in the press release.

And secondly, a little bit along the lines of what Ian already asked before, but the depreciation in the Subsea, is this jump a kind of a one-off or are we looking now at a structurally higher level of depreciation in the Subsea quarter after quarter for the next year or so?

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Julian Waldron - *Technip - CFO*

Thank you, Martijn. I think to take the second question first, no, there is a one-off this quarter. We normally have around 5 or so points of difference between operating income and EBITDA and it's close to 10 this time. So you can calculate it's around about a EUR40m accelerated depreciation in there and that is a one-off.

Going forwards for the near, medium term we'd expect to have -- to go back to around about the 5 point difference between operating income and depreciation. As far as IAS 32, 39 you have around about a third of that financial charges comes from that sort of thing, it's around EUR6m and EUR7m.

Martijn Rats - *Morgan Stanley - Analyst*

All right, thank you very much.

Julian Waldron - *Technip - CFO*

Thank you.

Operator

We have time for one more question. Mr. Geoffroy Stern, Cheuvreux, please go ahead with your question.

Geoffroy Stern - *Cheuvreux - Analyst*

Yes, good morning. Just a quick question, did you mention that 50% of the onshore sales did not generate any margin in Q3 is that correct?

Julian Waldron - *Technip - CFO*

For the last couple of quarters, Q1 and Q2 we've had around 25%, 26% of the Onshore/Offshore was from legacy contracts. It was over 30% in this quarter.

Geoffroy Stern - *Cheuvreux - Analyst*

Okay, so it's fair to assume that in the mid-term your onshore margin should be above 6%?

Julian Waldron - *Technip - CFO*

We haven't commented on that and we won't. What I think it does confirm is that we are on track to improve the Onshore/Offshore margins this year relative to last year.

The above 30% in this quarter is a high relative to the last two or three quarters because of the formal sale of the first of the Qatar projects, the QGX project which was formerly sold to the customer, and therefore the remaining part of that contract was taken through revenue. So you have a little bit of a one-off in this quarter. But the overall trend continues to be down for legacy.

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Geoffroy Stern - *Cheuvreux - Analyst*

And could you maybe comment -- just the figure of the legacy projects included in your backlog?

Julian Waldron - *Technip - CFO*

It's in all of it in the Onshore side and has been declining all year, and is -- there is probably about another year of revenue to take of a few hundred million euros.

Geoffroy Stern - *Cheuvreux - Analyst*

Okay. Thank you.

Julian Waldron - *Technip - CFO*

Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you very much for joining us today, and have a good day.

Kimberly Stewart - *Technip - VP, IR*

Ladies and gentlemen, this concludes today's conference call. We would like to thank 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 Investor Relations should you have any questions or require additional information. Once again, thank you for your participation, 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 the replay of this call will be available within the next two hours.

The replay will be on our website www.technip.com in the investor relations section or by dialing press 33 172 00 1469 or 44 207 107 0686 or + 1 866 794 2598 using the confirmation code 266493 hash key. The replay will be available for two weeks. Thank you and goodbye. You may now disconnect.

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