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TEC.PA - Technip Informs The Market That It Does Not Intend To File
A Tender Offer For CGG SA Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning everyone, and welcome to the Technip conference call. As a reminder, this conference is being recorded.

I would like to turn the conference to your host for today's conference call, Mr. Thierry Pilenko, Technip Chairman and CEO. Sir, please go ahead.

Thierry Pilenko - Technip SA - Chairman & CEO

Good morning, everyone, and thank you for joining us for this conference call following the press release we issued yesterday evening to clarify Technip's position with regards to its proposed acquisition of CGG.

We announced that we do not intend to pursue the approach we made on November 10 to CGG's Board of Directors with a view to making an offer on CGG. So further to press leaks, Technip has set out the main elements of its industrial project in its press release of November 20.

I would like to thank our shareholders with whom we've been in contact, as the dialog we have had with them has been open, frank and constructive; exactly as we'd have liked it to be between the owners of the business and management.

We are now at liberty to quantify for our shareholders what we expected in terms of earnings accretion from the transaction that we put forward. This transaction would have been in line with our strategy to increase the technology, equipment and services content of our business.

So I will briefly cover the strategic rationale for our proposed purchase of CGG's reservoirs and data processing known as GGR, and seismic activities known as Sercel.

Of course, this is not our own only growth initiative and I will briefly cover the small acquisition of the Zimmer Process Technologies which we closed on Friday and announced this morning. Julian will cover the financial parameters that we had in mind when making our approach.

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

Kimberly Stewart - Technip SA - VP, IR

Good morning. I would like to remind participants that statements made during the conference call which are not historical facts are forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995. Readers and listeners are strongly encouraged to refer to



the disclaimers which are an integral part of today's slides -- well, we're not having slides presentations, so today's presentation, which you may find on our website -- actually no, anyway, so the press release is the only thing you'll find on our website. And an audio replay will be available later today.

I now turn you over to Thierry.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Kimberly. So let's put matters into context first. Today, Technip has a [record] backlog of larger and smaller projects. These are geographically diversified and have different profiles. What they have in common is that the majority have been won thanks to the wide range of solutions that Technip can bring to our clients.

Our technology, focus on local content, our ability to be involved at project concept phase, our integration of equipment and services, all of these have enabled us to win good projects with attractive returns. So we will continue to implement this strategy.

We have implemented this strategy through acquisition, through alliances, and through organic investment in R&D and CapEx. The integration of the GGR and Sercel businesses would have taken the strategy much further, of course. Indeed, they would have added extra capabilities to enable our clients to respond to their challenges, whether in terms of bringing OpEx and CapEx costs down, or safely developing more challenging reservoirs.

We are starting to discuss with our clients about overall field design optimization and already winning work at Genesis and elsewhere in Technip. GGR would have added additional reservoir skills. We are already expanding our technology and equipment revenue through the acquisition of Stone & Webster Process Technologies, and are investing organically in our rigid pipe technologies, in our flexible pipes, and umbilical technology and capacity. Sercel would have added to that.

We have a strong R&D program in data [monitoring] in subsea systems. Sercel would have accelerated that R&D program, and GGR would have brought additional data management skills. So the CGG project would have helped us accelerate some of the strategic moves that we are already taking, and which we will continue.

Those moves are organic in CapEx and R&D, as well as through alliances. We are very excited about what it can bring for Technip and our clients in the coming years.

Something I'd like to stress is the positive client reaction to these initiatives. I have spent a lot of time over the past four weeks with customers at a very senior level. The feedback towards our strategy to get into the reservoir has been positive. I believe they welcome an idea of a stronger, more capable and broader Technip.

Now I will hand over to Julian for the financial aspects.

Julian Waldron - *Technip SA - CFO*

Thierry, thank you very much, and good morning, good afternoon, everybody. I'd like to go through three main subjects concerning the financial parameters of what we propose. Firstly, earnings and cash flow; secondly, return on capital; and third, a few words about balance sheet.

Now of course, as our proposal and approach did not reach a conclusion, there are some details that we aren't able to provide you. For example, on the financing structure at this point, and there other than to reconfirm our desire to keep our current BBB+ rating.

I'm also not going to go into all of the details of some of the operational changes that we would have made, in detail.



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It is important to for us to reiterate, firstly, that we never wished to earn the marine acquisition business of CGG, and thus the vessels that came with it. This business has its merits and attractions, but it would not fall within our core business.

And second, that we were confident in our ability to separate the marine acquisition business within about a year of deal completion; a confidence, which has been confirmed these last few weeks, after the transaction -- after the approach leaked.

So to the numbers. First, concerning earnings and cash flow accretion, here are some important points.

Total synergies that we would have expected from the transaction would have been over EUR100 million per annum. We expected gross cost synergies above EUR60 million from the transaction.

These are essentially combining head office costs, savings in procurement listings costs, real estate savings, in particular. We did not expect any cost synergies within the businesses themselves. And indeed, we would have expected, for example, some additional costs at the marine acquisition to strengthen its head office functions.

Our synergies were itemized and benchmarked against what we had actually achieved with both the global industries, and the Stone & Webster Process Technologies acquisitions. We would have expected EUR50 million to EUR60 million of financing cost synergies, and have also factored in the various breaks and other costs to achieve those.

As I noted, we would have made some changes to the way in which the individual businesses will run in order to derive additional operational improvements, which I won't quantify.

So pro forma for the separation of marine, accretion to earnings per share would have been in excess of 10% in the first year of acquisition, and gross cash flow accretion would have been substantially greater. And just to be clear, these numbers do not take into account revenue synergies from the strategy set out by Thierry earlier in the call.

I would however, note that all of the benefits I've just mentioned are only derived through our ownership, or would only have been derived through our ownership of the business.

Next, concerning return on capital employed. We would have expected that the operating profits of the businesses, complete with synergies and improvements, pro forma for the separation of [marine] [added by the company after the call] acquisition, taxed, would have covered our cost of capital around 12 to 18 months after completion of the transaction.

We would have expected that the businesses we carried forward will be somewhat less capital intensive than today, particularly with regards, for example, to multi client. And we would have expected to increase modestly the R&D spending across the business, but particularly at Sercel.

Third point concerning balance sheet. Once we'd completed the integration and the separation, as we've mentioned a few times around 50% of our profit and cash flow would have been derived from equipment, technology and services.

This would have been a material change from today's position, and would have enabled us to safely carry, with an unchanged rating, a substantial amount of net debt.

And with those remarks, I'll now pass you back to Thierry. Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Julian. So in conclusion, we have a solid strategic and financial basis; we had a solid and strategic and financial basis for our proposal. But as we always told you, if the circumstances did not allow us to pursue what we wanted, then our strategic and financial discipline requires that we stop.



So now let's look forward. We have a backlog that offers us unparalleled visibility into 2015 and beyond, based on our EUR19 billion backlog. We also have a substantial amount of other contracted work, such as project management consultancy and other reimbursable work, as well as PLSVs on long-term charters in Brazil.

This backlog is all the more important to us, given the recent volatility and downward movement in the oil price.

We will obviously continue to focus on our order intake strategy of diversification, winning projects on the back of early involvement, and technology. And we see good opportunities even in today's more challenging market. Indeed, order intake in the current quarter, the fourth quarter of 2014, so far is above EUR2.75 billion.

Our strong balance sheet is an asset that we intend to protect, as it allows us to continue to invest in our business, to broaden our range of solutions to better serve clients, and enhance our positioning across the oil and gas value chain.

We'll be guided in everything we do by our desire to maintain our financial discipline. Our customers are looking to Technip as a strong partner, well positioned to bring new solutions. And we will seek to capitalize on this excellent position.

We will continue to expand our portfolio of technologies. We have announced, this morning, a small acquisition of a portfolio of petrochemical technologies, known as Zimmer, from Air Liquide. Our ability to provide such wide range of onshore technologies is a clear differentiator for Technip.

We'll also remain focused on improving cash flow and returns in the subsea segment, while maintaining capital discipline. There are good areas where we can grow organically, such as in the flexible pipes, hence our capacity and capability of great plants in our Le Trait, Normandy facility that we announced a few weeks ago.

Last, we will continue optimize our cost base and eliminating non-core operations; in fact we've made a lot of progress in this respect in 2014.

So Technip enters 2015 in a strong position, and our strategy seeks to enhance this. For shareholders, we expect to continue to provide sustainable and predictable dividends.

With that, we will take a few questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Amy Wong, UBS.

Amy Wong - UBS - Analyst

I had a question around the financial metrics that Julian spoke about. If we think about potential future acquisitions, can we use those metrics as a guide to see how Technip's going to be structuring future acquisitions, please?

Julian Waldron - Technip SA - CFO

Amy, I think that's one of the reasons why we wanted to have this call this morning. Each situation will be different, but we wanted to demonstrate that we have gone through quite a thorough analysis of the financial implications of what we put forward. So that's, very clearly, one of the purposes of today's call.



Amy Wong - UBS - Analyst

Right, thank you. And in terms of strategy wise, in the past, Thierry, you've talked about going further down the [hole], and I think a lot of the discussion around this acquisition has been increasing Technip's exposure more to the life of the field. Can you give us a bit more insight into -- would you be looking into more OpEx related type spend, or do you still prefer to broaden your ability within the CapEx type spend along the supply chain?

Thierry Pilenko - Technip SA - Chairman & CEO

I think it's a very good question, Amy. I think, first of all, it's quite important to remind everybody on this call that actually broadening our expertise into the reservoir is something that our clients would like us to do.

For a very good reason, is that as we are intervening at an earlier and earlier stage in the design of field development, it is important not only to understand what's happening with the production system, but also what's happening with the wells, the reservoir, and how the reservoir is going to behave over time.

And I think this is where, on a number of occasions, including recently, we have seen clients saying, why don't you bring that expertise into the picture? So that means obviously we will be looking at broadening our portfolio. Our priority is always to try to do things organically, or through alliances.

But of course, when the opportunities are right to add technologies, like what we did today for the downstream with the Zimmer technology, this is an opportunity that although it's a relatively modest opportunity, but it's an opportunity that we always take, because that helps us increase our differentiation.

And I think we have demonstrated it with what we did with Stone & Webster over the past couple of years. That was more in the downstream and petrochemical business. It is now important to also, as well, set a direction for the growth of Technip into businesses that are more related either to the OpEx or to life of field.

Amy Wong - UBS - Analyst

Great. Thank you very much for that.

Operator

Alex Brooks, Canaccord.

Alex Brooks - Canaccord Genuity - Analyst

I add my thanks for doing this call, because obviously this is a challenging situation. I think my question is twofold. One is asking Amy's question in a slightly different way, which is clearly we, as an equity market, and as your shareholders, were somewhat blindsided by the announcement of a deal for CGG, or the proposal. And I guess the question is to scope for us a bit better as to where you might be going on a 12 month view, so we're a little bit less surprised if these things happen again.

And the second question is really, I'm very interested that you've gone through in some detail the proposal for CGG and I think, Julian, you've already said one reason is to help us understand what the metrics might be. But I'm a little curious as to why you're doing this, if this deal is actually dead, as the releases last night would seem to suggest.



Thierry Pilenko - *Technip SA - Chairman & CEO*

Okay, I'll answer the first part. First of all what I'd like to say, it was one-off kind of unique opportunity because, in CGG, there are actually two divisions which are market leaders in their field, as you know. And we believe very strongly that these two divisions would have considerably enhanced our portfolio.

We have been always speaking about expanding the technology portfolio of Technip and this opportunity, which again I said it was kind of a one-off, came up and we felt it was important to look at it very seriously. And then I let Julian expand on why we have explained the way we have explained it today.

Now something I'd like to say also is that, because of this opportunity, we have been able to set a direction, which not only is going to help us build a stronger and broader Technip, but also that the clients have reacted to in a very positive manner. In other words, and I will insist on that, combining the downhole and reservoir knowledge with the surface knowledge, if you want, subsea and production system knowledge, in the offshore environment is more and more critical to reduce clients' cost and to improve efficiency, and for Technip to bring more differentiation.

So obviously, we will continue to invest in our traditional businesses, as we are demonstrating now. This is setting the course, but our preferred route, in general, is to go through organic growth.

Now, Julian, would you like to explain why we have given more flesh around what the deal would have looked like?

Julian Waldron - *Technip SA - CFO*

Alex, it's a fair question, but I think, for our shareholders over the last four weeks, and I would say the management and the IR team here, one of the frustrations has not been -- has been that we've been unable to talk about our proposal in terms of numbers.

I think, personally, that it's important that our shareholders understand the financial work that we did before deciding to make this proposal. And I think we would like to do that as explicitly and as in detail as possible.

The fact that the deal is behind us means that it's no longer particularly sensitive to give this information out. So now is the right time to do it, and I think doing it openly and transparently is the right approach to take at this point. So it's no more or less than that.

Alex Brooks - *Canaccord Genuity - Analyst*

That's very kind. Thank you.

Operator

Jean-Luc Romain, ESN/CM-CIC Securities.

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

My question related to your own willingness to strengthen you capacity in the reservoir. What kind of particular competencies within the scope of what was in CGG would you still like to acquire? I'm not sure multi client was vital to your competencies in the reservoir. What kind of preferred competencies would you like to get into Technip?



Thierry Pilenko - *Technip SA - Chairman & CEO*

It's actually a very good question, and thank you for asking it. I think what is the most important, when we move into the reservoir space, is to be able to combine the early stage conceptual studies that we are doing, particularly with our Genesis division, with the reservoir aspect.

Now, as you probably know, the thing that is the most critical to have the full vision of the reservoir in the subsurface is seismic, because it is actually the only instrument that gives you the continuity in and through imaging of [the lower]. All the other instruments require interpolation between datasets, whether it is [wireline logging] we're drilling or well testing or other techniques. But definitely where we could see synergies that would help us define a better system for our clients was between the reservoir part, [the geology, geophysics] reservoir part and the Genesis activities of Technip.

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

Thank you.

Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - *HSBC Global Research - Analyst*

Two questions, please. I suppose the first one, I want to try and understand the timing of the approach of the CGG a little bit better. I think, from memory, you were linked with this business several years ago. Have your clients been pushing you to do something like this for several years and, therefore, perhaps the timing was opportunistic, given the backdrop and low share prices and all the rest of it? Or has the push from clients been more recent than this? That's the first question.

And then the second question, it sounds like the clients, your customers, are perhaps a bit more positive on this particular deal than maybe the shareholders were. Perhaps you can just comment on the feedback you've received across your shareholder base on the back of this deal, and was there a common pushback? Thank you.

Julian Waldron - *Technip SA - CFO*

Phil, thanks. I'll talk about shareholders and then I'll pass back Thierry to talk about the clients, because I think there is a lot both about this approach, but generally, about our strategy as we mentioned that is worth focusing on.

I don't think I have a lot to say except that first, the discussions we had with our shareholders around the strategy for Technip overall, what we've been doing in technology, equipment and services over the last couple of years, the rationale, for example, for Stone & Webster, the rationale for being involved earlier and linking that to the way that we've taken the orders over the last couple of years, I think all of those things, from the discussions that I had, were understood, and shareholders were curious to know about how some of the aspects of CGG, and other things that we're doing, would take us further in that direction.

And as I mentioned in response to Alex's question a little earlier on, the frustration for them, and for us, was not being able to get into the meat of the discussion as to what it would mean for shareholder returns, what our financial parameters were, what our financial disciplines were and the financial ways in which we approached the transaction.

As I mentioned, that was frustrating for all of us, hence the purpose, or one of the purposes, of the call today. So I think that's how I characterize the last few weeks, other than as Thierry mentioned in his introduction, we've been flattered and very enthused by the engagement we've had with our shareholders over the last four weeks. So that's been a pleasant experience, I think, for us, from that point of view.



Thierry?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Yes. I'll come back on your question about how the clients view this type of transaction. But before I do that, I'd like to maybe re-explain how our clients view Technip today, and how Technip has evolved over the past 10 years and the type of solutions that we have been able to develop because we have broadened the portfolio of solutions that we offer to our clients.

For this, I'll take one example, which is floating LNG. Floating LNG is a new object, a new concept, that has been made possible by combining the subsea expertise, the floater expertise and the LNG, the liquefaction expertise; three different businesses that you could take completely independently if you wanted to. But when you have all these businesses under one single roof at Technip, you are in a position to actually create these new objects and create these new businesses.

This is what we did, and this is why we were chosen by Shell and then by Petronas to actually design and build the first floating LNGs. These are competencies that are coming from our subsea business, competencies that are coming from our offshore platform business, and competencies that are coming from our onshore business.

This is what the clients want us to do. We have won, over the past 18 months, at least three projects that I remember of where we are combining the subsea understanding and the platform understanding.

For some of these projects, and there is one which has been announced in the last quarter, which is the project in Trinidad which is the Juniper project, we started actually from a blank sheet of paper from the concept and to redesign completely the field architecture with, of course, the support of the client, but to achieve something which is more rational, more cost effective and reusing technologies that we have seen across the value chain.

When we engage with our customers over something which is as broad as this, that they have started to tell us, that that would be also nice to have the -- well, not just nice to have but essential to have, the reservoir knowledge to be able to combine that.

This story is not new; it's not uncharted territory. It is actually what our clients are doing every day. It is actually vision and things like that, we have been seeing that for 10 years. 10 years that we said there will be a time where the subsurface and surface will have to get together, particularly in the offshore world.

I think it was time to start to make it happen, particularly at the time where clients are saying, we need to find more cost effective solutions. You cannot have just a partial view. Those that have the broadest view, like Technip, are able to bring those solutions, whether it was for winning [Kaombo] with a very broad set of solutions, which is a subsea project in West Africa, or winning floating LNG.

Now, we will take it to a next dimension if we have additional knowledge in the subsurface.

Phillip Lindsay - *HSBC Global Research - Analyst*

All right. Thank you.

Operator

No further questions and I now turn to you, Mr. Pilenko.



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Thierry Pilenko - *Technip SA - Chairman & CEO*

All right. Well, thank you very much for attending this conference call. I'm sure we will have a lot of interaction over the next few weeks and months about the strategy and about our results. We are focused on our projects

Have a very happy New Year to all of us. All right? Bye-bye.

Kimberly Stewart - *Technip SA - VP, IR*

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

Once again, thank you for your participation and you have a wonderful holiday.

Operator

Thank you for your participation in today's results conference call. The replay will be also available by dialing +33 01720 01500, France and Continental Europe; or +44 02033 679460, UK; or +1 87764 23018, USA, using the confirmation code 289672-asterisk. The replay will be available for two weeks.

Thank you and goodbye. You may now disconnect.

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