

# FINAL TRANSCRIPT

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**TEC.PA - Q4 & Full Year 2010 Technip Earnings Conference Call**

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*Technip SA - Chairman and CEO*

**Kimberly Stewart**

*Technip SA - VP, IR*

**Julian Waldron**

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*Exane BNP Paribas - Analyst*

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## PRESENTATION

**Operator**

Good morning everyone and welcome to Technip's fourth-quarter and full-year 2010 results conference call. (Operator Instructions). I would now like to turn the call over to your host for today's conference call, Mr. Thierry Pilenko, Technip Chairman and CEO. Please go ahead, sir.

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**Thierry Pilenko** - *Technip SA - 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, our CFO, Arnaud Real, Deputy CFO, as well as Kimberly Stewart, [Thierry Conti] and [Apollina Vandinet] from our investors relation team. I will turn you over to Kimberly, who will go over the conference call rules.

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**Kimberly Stewart** - *Technip SA - VP, IR*

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

Statements in today's press release, as well 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 in approximately two hours after the call ends. I now hand you back to Thierry.

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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Thank you Kimberly. I'll be going over Technip's full-year 2010 key achievements during the first part of this presentation before handing you over to Julian.

We delivered profitability slightly above our revised outlook announced in October, which was again driven by a strong execution, resulting in a Group operating margin of 10.2%. Despite a challenging competitive environment, we also grew our backlog by over EUR1b. Our strategic investment and R&D efforts have been reinforced and I'll go into more detail shortly as this is absolutely key to our future growth. Our balance sheet remains strong with a good net cash position of EUR1.3b and accordingly we recommend a EUR0.10 increase of the dividend to EUR1.45 per share.

So these good results were due in part to the successful completion of a number of projects in 2010. For those of you who have the slides, on page five we have listed some of the major projects. I will highlight just a few of them, starting with Subsea, notably Cascade Chinook, the first project for Petrobras in the Gulf of Mexico, as well as Jubilee in Ghana, which demonstrated our ability to deliver a seamless project execution between the different continents, and our new Apache II that successfully worked on and completed Talisman Auk and Burghley in the North Sea.

For the Onshore/Offshore segment it's important to highlight that we delivered the last trains of the world's largest LNG trains in Qatar, Qatargas 3 and 4, and we also turned over to Petrobras the P51 semi-sub, as well as FLNG FEED, to Petrobras again.

At the same time we grew a well diversified portfolio of new contracts to support our sustainable growth, as shown on slide six. We won strategic FEEDs and services, which can potentially drive further business, such as the Marine Well Containment System, where five of our major clients chose Technip to develop the best solution for the new requirements in the Gulf of Mexico. In addition to our FLNG for the Shell Prelude and Petronas, we are -- this confirmed our leadership in the emerging and promising business of floating LNG. We won a few large projects, including an upgrade of the Sonatrach refinery in Algiers and a good mix of different projects all over the world.

Now let's take a closer look at our backlog, which grew by EUR1.2b to EUR9.2b at the end of 2010. It's the highest backlog since the end of 2007. So business won in 2010 accounts for 56% of the total backlog and this backlog enables us to grow, whilst meeting our objective to have a balanced portfolio of projects.

As I mentioned before, we continued our strategic investment in 2010. We increased our R&D spending by 35% over the past four years, resulting in commercially viable products that address the needs of our clients.

Projects get deeper, tiebacks get longer and the possibility of high grade forming in the pipelines bring flow assurance challenges. Accordingly, we have developed the first reeled heated pipe-in-pipe, which will be used on the Islay project in the UK North Sea. And in Brazil, our Integrated Production Bundle, or IPDs, which is a proprietary technology of Technip, will be installed on Papa-Terra to resolve some of these production challenges.

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We are also expanding our capabilities and our strategic assets, with our second Brazilian flexlay vessel bid in Brazil, the Skandi Niteroi, which should be put in service sometime in 2011. And we took a 8% holding in the MHB yard, which is a subsidiary of Petronas, reinforcing our offshore and onshore position in Malaysia and in Asia Pacific more generally.

I now turn you over to Julian who will go over the fourth-quarter operational and 2010 financial highlights. Julian.

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**Julian Waldron - Technip SA - CFO**

Thierry, thank you very much. On slide 10 I wanted first of all just to comment on some of the key operational events in the fourth quarter. In Subsea we delivered a number of smaller and medium-sized projects around the world. And amongst the larger contracts, Jubilee was completed in the fourth quarter. The phase 7 of the West Delta development was well advanced in Q4, and that project was actually completed in mid January.

Ongoing in the quarter were the offshore operations, in particular involving the Deep Blue on both Pazflor and Block 31, and we also completed with Allseas the Tupi gas export project in Brazil. And as you may have seen in the press release this morning, we continue to develop our business with Allseas in Brazil.

The manufacturing plants were well utilized in the quarter. The vessel utilization was below last year, but it held up at around 76%. And we started, after the official opening in November, to ramp up production at Asiaflex.

On slide 11, Onshore/Offshore, we handed three significant projects to customers in the quarter. As Thierry mentioned, the last LNG train in Qatar, but also the Lotos Refinery in Poland and the Zakum processing facilities in the Emirates. We also handed over the first biodiesel plant of the two to Neste in Singapore. Elsewhere projects progressed in line. And our three most significant projects in the Middle East, Jubail, Asab 3 and PMP all moved forward, with the first two of those entering their construction phases. We continued a lot of FEED work, notably on the FLNG projects. And, as you've seen, we've started a third project, FEED project, for Petronas in that area.

On slide 12, and I'm beginning to turn to results, starting with order intake. In the fourth quarter, we took in nearly EUR2.5b of orders, just shy of EUR700m in Subsea. The main orders in the quarter were in Brazil, with three large orders for the large-diameter pipe work on Capichaba, the renewal of one of our long-term charters, and we have others to do in 2011, and the BC10 EPCI rigid installation contract for Shell. In the Gulf of Mexico we won a significant scope of work for the first deep-water development post moratorium, which is the Jack and Saint Malo development for Chevron and Enbridge.

And order intake in Onshore/Offshore was nearly EUR1.75b. As Thierry mentioned, Algiers, but also the Mariscal Sucre offshore development in Venezuela.

Slide 13, financial performance. Subsea revenues for the full year were down 5% on 2009. That reflects the lower business overall this year in some areas, notably, for example, the North Sea and the Gulf. In the fourth quarter revenues in Subsea grew 9%, as activity on our larger projects, particularly Pazflor and Block 31 and the end phases of Jubilee were quite significant in the quarter. Margins were slightly ahead of our full-year expectations, at 16.7%. And this reflects, as in previous years and previous quarters, a good operating performance on our projects.

We succeeded in raising our margins in Offshore/Onshore a little more than our initial expectations. The full-year margin was 6.2%, after the solid fourth quarter. Revenue started to grow again in the fourth quarter, as we had expected or predicted, with the contribution of newer projects for the first time outweighing the decline of the older legacy contracts. We had the last EUR50m or so of legacy revenue with the sale of the last LNG train in the quarter.

Turning on slide 14 to the full-year P&L, a couple of points to mention. Currency was beneficial during the year, with the dollar and other currencies, such as the real, strengthening against the euro. Our OpEx rose in the year partly because of currency but



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also because of a significant rise again in selling and tendering costs, which is a point we've mentioned over the last few quarters. And although we expect the rise to be a little more modest in 2011, we'd still expect to see upward pressure on that. In non-recurring items, we have a small additional net cost for settling the Nigerian case in December. And our tax rate at 30% was in line with our medium-term expectations.

Slide 15, turning to cash, a few things to note. First of all the construction contract balance reduced again and is now a net EUR316m. That's against EUR817m a year ago. And there's two factors behind that. First, the sale of a number of large lump-sum contracts being sold to clients and therefore, from an accounting point of view, moving out of that balance to the receivables/payables balances. But secondly, the continuation of a normalization of the cash advances on our contracts.

Within the working capital movement you'll find the cash impact of the TSKJ payments, which were \$221m (sic -- see presentation) equivalent this year. And you'll remember when you look back at 2009 this was a positive working capital item for accounting purposes when booked. Capital expenditure was EUR389m in the year, a little lower than we anticipated, and we also spent EUR114m on the 8% stake in MHB in quarter four.

Lastly, the convertible bond issued in November was split according to IFRS, with EUR63m being taken to equity and the remainder to debt. And we've completed the long-term refinancing of the bond, which matured in May.

And with that I'll hand back to Thierry to cover the outlook.

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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Thank you Julian. So turning to slide 17 we take a look at how we see the 2011 business environment. I would say that overall we are positive about the outlook for our industry. Oil prices and input costs are at level which make most projects worldwide viable so that will allow our clients to really focus on growing production, which I think is one of their main challenges. And in fact this is already reflected in renewed activity and a pretty strong pickup in the North Sea and also in Canada.

So the areas supporting our structural growth, deep-water development, refining in emerging markets, gas production including FLNG, all these areas remain robust. Regions such as Brazil, Middle East, Australia are really moving forward and show absolutely no sign of slowing down, on the contrary. Nevertheless, competition remains intense and new regulations and geopolitical factors, whether in the Gulf of Mexico or North Africa for the geopolitical factors, obviously add a certain level of uncertainty to the outlook. But overall the business environment is pretty positive.

So in this business environment we will continue to focus on sustainable and profitable growth and our strategic priorities remain the same. We have already identified four significant growth initiatives for 2011. First of all, we announced our initial plans for a new fabrication facility in Brazil, focusing on the high-end products, flexible pipes. New-build flexlay vessel that will be dedicated to Asian markets, this is something that we announced today. And we are also going to expand Technip's umbilical system with new steel-tube capabilities either in the UK or in Asia. And we will make a decision on the location within the first half of this year. And we have also taken an initial investment in offshore wind.

Now taking a closer look at Brazil's subsea needs, we think that in the very near future flexible, rigid and hybrid solution will play a major role in Brazil. We have already developed a hybrid system on the PDET project a few years back similar to what we delivered last year on Cascade and Chinook for Petrobras in Gulf of Mexico. We also installed rigid reelable pipe-in-pipe floor line on Canapu project in 2008 and, more recently, we were awarded by Shell BC10 phase II project, which will install steel catenary risers on that field with our Deep Blue Vessel.

So there will be a mix of both flexible and rigid solutions, but we believe that flexible pipes will continue to be used on the majority of subsea developments in Brazil. Future developments will need the more technology and high-end products, both for the traditional FEED developments, as well as the pre salt. And we will need to be able to address the challenges, as I said



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before, flow assurance. So that's why we are going to start using the IPB on Papa-Terra and we will also supply the Tupi pilot flexibles, which integrate the fiber optics, which are a product which has been developed in partnership with Schlumberger to monitor the line integrity.

So long-term growth visibility provided by Petrobras development really reinforce our belief that we need to expand into high-end product manufacturing capabilities in Brazil, hence our decision to start with this new factory.

Technip has also taken a strategic foothold in offshore wind. This is a small step but we believe we can leverage our engineering and project management expertise and installation know-how to further develop the offering in the offshore renewable market, which is picking up particularly on the UK side of the North Sea.

So looking at our backlog, our backlog by region and by type of activity is well aligned with the key growth markets and I think that the backlog scheduled for execution gives us very good visibility. Notably work schedule beyond 2011 is the highest since we have -- the highest we have since 2006. So this improves visibility in the last three months in particular, allows us to revise our [2000] initial view upwards. So we now target a Subsea margin above 15% - previously we said around 15% - and an Onshore/Offshore margin between 6% and 6.5%.

With that I would now like to turn the call over to participants to answer the questions you may have.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. (Operator Instructions). One moment please for the first question. The first question comes from Mr. Alexandre Marie from Exane BNP Paribas. Sir, please go ahead with your question.

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### Alexandre Marie - Exane BNP Paribas - Analyst

Hi, good morning everyone. A few questions for me please. First on your FLNG FEED contract that you won recently in Malaysia, I wanted to know if the stake that you took recently in MMHE gave Technip any edge in winning this contract.

And will you bid for the full EPC contract as well and, if so, will you have the yard capacity, maybe through MMHE, to execute locally this EPC?

Second, on your guidance, I wanted to know if this includes at all any revenues from the Prelude FLNG EPC. So I guess the answer is no because it has not been awarded yet, but I wanted to check this.

Third question, your results from affiliates, does it include in the fourth quarter any impact for the stake in MMHE?

And finally, if you could possibly take us through the way you intend to use your cash going forward? And obviously something about the part of cash which is not client advances? Thank you.

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### Thierry Pilenko - Technip SA - Chairman and CEO

Okay, so the last two questions will be answered by Julian. As far as the FLNG FEED contract for Petronas is concerned, I think this was granted to us on the experience and the merit that we have based on the first two FLNGs that we won, for Shell and

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for Petrobras. We combine subsea floater and topside LNG process expertise and I think this is really, really what was the factor for us being awarded this contract.

You know the stake that we took in MHB was in the last quarter of Q4 and it's very strategic. It shows how important the relationship between Technip and Petronas and their affiliate is. But on a FEED which is a very strategic and technologically challenging element the client has to make the decision based on the merit, the engineering capabilities and the safety track record of the contractor.

Now I think it's way too early to talk about EPC. At this stage it's a FEED. In EPC the client will have to make a final investment decision and it is going to take some time before we give the elements to our client to make that final investment decision. As a reference, we have been working -- a lot of FEEDs are between one to, one year to 18 months. So it takes some time.

Now in terms of execution, if one day a decision to actually build this large vessel is made, I don't think MHB will have the capacity to do it. This is not really in the core business of MHB to build big hulls. So I think we will at that stage see what is the best solution for the execution.

Your second question was about will we include any EPC revenue on FLNG in 2011? The answer is no. We have no revenue on EPC because we don't control the decision process of our clients on the EPC. We have worked a lot on the two first projects and now we've started with Petronas, as I said before. But final investment decision is obviously in the hand of our customers and at this stage, although we have some ideas of what could happen, we have not included any revenue in the 2011 forecast and any profit, except for the additional work on the FEEDs that are still ongoing.

Julian, would you like to talk about the results from MHB and the cash?

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**Julian Waldron** - Technip SA - CFO

Alexandre, good morning. MHB is an investment and is not equity accounted so there is no P&L impact in the fourth quarter and there'll be no P&L impact unless circumstances change in 2011 either. There is a balance sheet impact. The stake is marked to market through the balance sheet and if you look at the shareholders' funds you'll see the impact of that, which is positive given the share price is higher than our investment amount.

In terms of uses of cash, I think we highlight the same three that we have highlighted for a number of quarters now. Firstly, increasing the dividend; putting the dividend up by EUR0.10 relative to last year.

And secondly continuing to invest in strategic assets and technologies, and the four initiatives that we have announced this morning are all part of that. We'll spend north of EUR400m of CapEx this year. There are additional opportunities to expand on that CapEx. For example, the tender in Brazil for up to six new pipe-lay support vessels, we will look to play a part in that process.

And thirdly, although it's not something that we devote an enormous amount of time to, we continue to look at ways in which we can expand our business through M&A. And as you've seen in the first month of the year, we were able very quickly to seize an opportunity in offshore wind. It was an opportunity that we were able to react to and execute within a few days. And I think that is something that our balance sheet gives us the flexibility to do.

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**Alexandre Marie** - Exane BNP Paribas - Analyst

Okay. Thank you.

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**Julian Waldron** - *Technip SA - CFO*

Thank you.

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**Operator**

Thank you. Our next question is by Ms. Amy Wong from UBS. Please go ahead.

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**Amy Wong** - *UBS - Analyst*

Hi, good morning. Just going through your outlook comments, you're starting to highlight a little bit of inflation in some underlying raw materials. And can you give us a bit more color on that and how you guys are reacting to that risk this time around?

And then the second question is on the regions that you highlight. Brazil, Middle East, Australia, continue to be hotspots. Could you maybe give us a little bit of insight of what you think about Middle East and North Africa right now given the unrest and how it could possibly potentially impact Technip? And if you guys have any contingency plans there? Thank you.

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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Okay, good morning Amy.

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**Amy Wong** - *UBS - Analyst*

Morning. Thierry Pilenko: First of all, outlook on the inflation, you all see that we have started to see an increase in the raw material from iron ore to coal, cost of energy, cost of copper. And we have seen an increase on these raw materials anywhere from 10% to 50% and even more in some raw materials. So we are starting to enter into a period where we're going to start to see cost increase based on this increase of raw material.

But those raw materials, to really impact the cost of the projects, need also to impact the cost of equipment. So what has happened during the past two years is that there are still a number of new equipment manufacturers, particularly in Asia and from China to India and other Asian countries that have increased their capacity.

So what we see today is that although there is an increase of the underlying raw material, we are yet to see a significant investment in the cost of equipment. But definitely we are no longer in a period where we can expect significant decrease from now on. On the contrary, I think by the end of the year we will start to see an increase in steel most probably, and possibly as factories start to fill up, depending on the different products and the different equipment we could start to see pressure on some prices on some equipment.

However, I believe that it is still a good window of opportunity for our customers to go ahead with projects and try to secure projects at the current prices because of this overall global overcapacity, particularly on the equipment side. So what does it mean? It means that today we are in a position when we win a contract to have a very open, competitive game on the whole procurement and the whole supply chain.

By the end of the year we could start to see some tension and that means that before we commit a contract with a given customer, we may have to secure prices and firm prices from a selected number of suppliers. So that's why it is very important for us, and that is what we are doing at the moment, that we qualify as many competitors as possible, including those new players in Asia. And that we are ready if we start to see inflation picking up to secure our -- those items on which we believe

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inflation will be picking up more significantly. But at this stage it is still, I would say, a very sweet spot for our customers to make decisions on the contract award.

Regions, so Brazil, Middle East, Australia, definitely they are still very buoyant. Middle East has been awarding -- I'm talking about the Gulf countries mostly at this stage and not Egypt. But Middle East has been awarding contracts basically according to their plans so -- and we still have extremely good visibility in countries like Brazil.

Now as far as the North Africa situation is concerned at the moment, it's a little bit too early to say what's going to be the full impact because things change basically every day. What I'd like to say is that in terms of our activity for example in Egypt, where we have the largest project of all of North Africa, we were finishing a series of projects. One project is offshore and we were starting the discussion on an onshore project so we were really in between two series of projects.

Now, when are future projects going to be awarded, that is an uncertainty at this stage. I think our clients would probably will to see a little bit more which way the political situation is going to evolve. But we already have strong signs that our clients - some of them were evacuated or left the country - are coming back and will be back at work. But I would not commit on any date about when is the situation, the business situation going back to normal because of the uncertainties that we have different views every day.

As far as the rest of the Middle East is concerned, I think I don't want to speculate on what could happen, but at this stage in the major countries of the Gulf we see no change in the way they approach business. Now that could change in three months' time but at this stage -- we have an entire team that just comes back from Saudi Arabia to look at some of the projects we are doing there and this is business as usual, still talking about future projects and so forth. But obviously nobody predicted what happened in Tunisia and then what happened in Egypt and who could be the next country to have significant troubles.

So that's all I would say at this stage. That could delay a little bit our order intake in the first quarter of this year, as we had a couple of projects in North Africa that we thought would be awarded. Maybe the decision will be -- probably the decision will be taken later in the year. But that's all I can say at the moment.

Would you like to add something Julian on this?

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**Julian Waldron** - Technip SA - CFO

No, no.

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**Amy Wong** - UBS - Analyst

Okay. Thank you very much.

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**Operator**

Okay, thank you. Our next question is by Mr. Mick Pickup from Barclays. Please go ahead sir.

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**Mick Pickup** - Barclays Capital - Analyst

Good morning. All very clear so far. Just a few quick questions from me. Firstly, the bit I don't quite get in the numbers is in that Offshore business, which seems to have performed a lot stronger than I expected and there seems to have been a lot of rapid turnaround workload in the back end of the year. Can you just explain what's going into that?



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And secondly, I think Julian you hinted at something there that -- we as analysts tend to focus a lot on the big elephants that are out there in the market, but your backlog this year seems to have grown quite strongly without too many elephants appearing. So have you seen a step change in the market to more small and medium-term contracts and how does the market look today?

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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Julian, do you want to (multiple speakers)?

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**Julian Waldron** - *Technip SA - CFO*

So Mick, good morning. For the Offshore business the -- I think it's worth reminding that the bulk of the revenue in Offshore 2009/2010 is, as you say, relatively short turnaround business. It comes from offshore field development work. We have a business based in London that goes under the name of Genesis and that is a very active business throughout the world in early stage, early/middle-stage offshore field development. And that's the bulk of the revenue coming through that segment. In 2011/'12 that might change. It would change I think for two reasons. Firstly, we'll have revenue over the next couple of years from the Mariscal Sucre development in Venezuela. And secondly, we will also probably, I hope anyway, see some revenue from FLNG.

Two other things to mention. There is a pickup in offshore activity in the Gulf. You saw that we took an order in end of quarter three for KJO and we have some additional offshore work in Turkmenistan with Block 1, which is split between our Onshore and our Offshore division. So a little bit of evolution and change in the Offshore revenue.

As far as the backlog is concerned, we would agree with you that the market is much more than the elephants. And we have made a conscious effort over the last three years, partly driven by the markets crisis in 2008/2009 and casting our net wider at that point, partly driven by our requirements in terms of risk diversification and profitability. We've been looking to get a very wide range of projects geographically and that means that you do spend more time on smaller and medium-sized contracts.

For us that can often be a very good driver of profitability. If you take the Gulf of Mexico, for example, small tie-back projects which take, 10, 15, 20 days of Deep Blue time, which are relatively low risk, in terms of execution and require the Deep Blue going from Mobile, spooling out into the Gulf, doing 10 or 20 days worth of rigid pipe lay, going back in, re-spooling, coming back out, that sort of mechanical, almost industrial process is a very good way for us to make money. And it happens to coincide with what the market is in that region. So I'd agree with your reflection.

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**Mick Pickup** - *Barclays Capital - Analyst*

Okay. Thanks a lot Julian.

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**Operator**

Okay, thank you. Our next question is by Mr. Jean-Luc Romain from CM-CIC Securities. Please go ahead.

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

Good morning. I would like you to clarify if the contracts you announced in January for Jack/St. Malo (inaudible) Ridge contract are included in the order intake of the fourth quarter of 2010.

And if you gave, could you give a range of value for those [berth] contracts? That would be useful. Thank you.

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**Julian Waldron** - *Technip SA - CFO*

Jean-Luc, good morning. It is in our order intake. The amount of the contract isn't disclosed by the client, so I can't give you an exact number. I think what I would say is whereas the majority of contracts in the Gulf of Mexico are between \$50m and \$100m, this is probably a larger contract.

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

Thank you.

**Operator**

Thank you. Our next question is by Mr. Phil Lindsay from Royal Bank of Scotland. Please go ahead, sir.

**Phil Lindsay** - *Royal Bank of Scotland - Analyst*

Hi, good morning. A couple of questions, if I could. First of all, just on the revenue guidance of -- if we take the mid-point of the full year '11 revenue guidance, this suggests about I think 80% revenue coverage for this year. I think you were around 74% last year. So it looks conservative, which I suppose we'd expect from Technip at this point in the year. But what are the hurdles that you see to potential out-performance on this guidance?

And then a second question related on offshore wind. Can you just discuss the prospects here and how you expect Technip to evolve in this space, and perhaps when you'd expect this part of the business to make a meaningful P&L impact?

And also a comment if you could, certain companies are discussing a slowdown in the offshore wind market currently, what's your view on the market near term?

**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Okay, I'll start with the first question about the conservatism on the revenue guidance. And I'd like just to highlight one project which is quite significant in our revenue in 2011, which is the Jubail project, which is progressing as planned today, but as it is a big chunk of our revenue and as we progress into 2011, that could, based on the progress, that could slip a little bit more or less or go forward. So I don't think it's particularly conservative. It's what we see from the portfolio of projects that we have today.

Would you like to add something there?

**Julian Waldron** - *Technip SA - CFO*

I think only that we've got pretty good capacity utilization in most of our vessels. We have good capacity utilization for the manufacturing plants. So probably our ability to take spot business this year and maybe this year our willingness to take spot business may be slightly eroded relative to last year. Maybe we'll be focusing more on building the longer-term backlog. I think that's the other piece of color I'd like to give.



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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Alright. Coming back to your question on the offshore wind, I don't think you should model a very meaningful P&L impact in the short term. I'd like just to draw a little bit of a scenario of what we've done with offshore wind so far.

We did participate very strongly to the first design and installation of the floating offshore system called Hywind in Norway. That was a couple of years ago. A great success, technical success, but it's still in a pilot phase with Statoil. The second thing we did is that we did take an investment and we are very active in trying to design new types of windmills, offshore windmills, vertical windmills, which would -- should be cheaper and easier to maintain. So that's the so-called Vertiwind technology and initiative. And we did create a small focus group about a year ago in Aberdeen because of the possibilities in the North Sea.

With the acquisition of Subocean we are actually acquiring more skilled people who are particularly dedicated, not so much to the windmills themselves, but from everything that goes from the windmill to the shore, and in particular the cable laying. This type of expertise is obviously very useful for the wind business potentially, but can be applied to very different types of situations. If you're laying power cable, you can do that from a platform, between platforms, from any type of structure which is offshore to shore. And I think this is the type of expertise that we're also looking for.

Now as far as the slowdown in interest in offshore wind in the North Sea is concerned, you're absolutely right. There was maybe not as much discussion about the gigawatts of installed power within the next 10 years, but there is still a fairly significant amount of projects. So at this stage we have built our expertise. We believe that with project management and the capacity of Subocean we will be able to add a value proposition to our customer which is much more powerful than we had either as Technip alone or Subocean alone. But I don't expect it to be something that would move the needle before a certain number of years.

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**Phil Lindsay** - *Royal Bank of Scotland - Analyst*

Okay, that's great. Thanks.

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**Operator**

Thank you. Our next question is by Mr. Guillaume Delaby from Societe Generale. Please go ahead, sir.

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**Guillaume Delaby** - *Societe Generale - Analyst*

Yes. Good morning Thierry. Good morning Julian. In fact two questions regarding, I would say, inflation worries. Can you comment a little bit about the situation in Brazil, not only in terms of raw materials, but also in terms of wages? Don't you fear some kind of overheating in the Brazilian economy, especially given the fact that there will be Olympic Games in 2016? And how do you plan to protect yourselves against that?

And my second question which is a little bit more or less similar is about skilled workers. How do you see the current market for skilled workers and is there some inflation in this area? Thank you.

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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Okay. Two very good questions, Guillaume. First of all, yes, the biggest challenge of Brazil, not specific to our business by the way, is inflation. And I think the new president has already taken some measures to try to make sure that inflation doesn't get out of hand. And there are some specific pockets of inflation, particularly around the Rio area because of the Olympic Games that are coming, where this inflation could be higher than the rest of the country. So there is definitely a number of measures that will be taken by the country to try to make sure that this inflation remains at a reasonable level.



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And in fact the issue in Brazil is not just inflation. It's the fact that you can have a certain level of inflation if productivity follows more or less that inflation, so if you have an improvement in productivity. However, today, to have a very significant improvement in productivity in Brazil, you would need more infrastructure. And I think this is going to be a major focus for the country but also for our industry to make sure that there is more infrastructure so that productivity can be improved.

So in an environment like that, what -- how are we doing? First of all, from an infrastructure standpoint we make investments that help at our level and for our business that help us be more productive and avoid some of the inflation that there was, for example, in storage along the shore in Brazil. And that's why we invested into (inaudible). That's for the physical infrastructure.

As far as the people are concerned, we have made a very conscious decision to follow, to make sure that we follow the market, that we are very, very careful about how we follow in terms of wages, incentives, bonuses, but also long-term incentives. And in fact part of our long-term incentive plans have been directed specifically to Brazil. So I'm talking here about every form of equity that we can use as part of a long-term incentive to make sure that for the key people we have the right retention level.

Now as far as some specific skills as we are moving more into R&D into Brazil, we need to go beyond Rio. And we are looking at opportunities to establish R&D centers and strong links with universities in places which are less overheated like (inaudible), for example, where we can have access to very highly-skilled labor. But obviously this is a concern which goes for our industry and beyond our industry.

Now on a worldwide basis I would say we are back into a cycle or the beginning of a cycle where again people, our clients will start talking about human resources. So as far as the rest of the world is concerned, we are going to see in the next couple of years I believe again a big demand for skilled resources. And something we did at Technip is that even during the worst period of the crisis, which was over like 18 months to two years ago, we continued to recruit people. We never went into this massive restructuring that we have seen in other parts of the industry. And we have continued to secure our expertise, including some specific programs for seniors and continue to recruit from top universities.

At the moment I would say we have no problem to hire people in the best universities in the world and we have hired about 4,000 people last year. Most of these people were actually hired in countries where our business is growing the fastest, such as Brazil, the Middle-East, India, Asia and so forth. But even in OECD countries, we've been able to attract good talent. But definitely I believe our industry is going to wake up maybe in two years' time - when I say 'our industry', I'm talking about the oil and gas - in two years' time with constraints on human resources that will probably look like what we had in 2007/2008.

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### Operator

Thank you. Our next question is by Ms. Tahira Afzal from KeyBanc Capital Markets. Please go ahead.

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### Tahira Afzal - KeyBanc Capital Markets - Analyst

Hi. Thank you for taking my questions and congratulations on the quarter. I've got three questions. Number one, if you could provide any color on why you're seeing some incremental upside to your margins both on the Offshore/Onshore side and on the Subsea side.

Second question is in regards to Australia. If you really look at the cost of some of these LNG projects, there's been a lot of talk of the costs going up. And I would love to know whether that is influencing some projects outside of Australia coming back on the map and whether that could potentially influence the decisions around FLNG projects going forward.

And the third question is in terms of competitive dynamics on the EPC side, on the onshore side. If you're looking at some of the Asian competitors, they still seem to be bidding aggressively despite the backlogs reaching record backlog on a year-on-year basis. I would love some commentary on what we should be looking for, for improved competitive dynamics there.



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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Okay. Julian, can you take the first question, on the --

**Julian Waldron** - *Technip SA - CFO*

Thank you for the question. I think on -- over the last three months, we've been able to do two things. The first is give ourselves comfort on the utilization of some of the key assets on the Subsea side in 2011. And secondly in terms of order intake on the Onshore/Offshore side in particular, look at the utilization of engineers and the number of man-hours that we'll have to deploy in 2011. I think it's those two things that give us comfort to raise our initial view of 2011 by the numbers you've seen this morning. I think those were the two main swing factors in Q4.

Thierry.

**Thierry Pilenko** - *Technip SA - Chairman and CEO*

Yes. About Australia and the costs in Australia and LNG projects moving forward in Australia, so the first thing I'd like to say is that there is kind of a divided view on where the cost of or the price of gas is going to go in the next five to 10 years. But there are a number of companies, and among those we will find a lot of majors, thinking that between 2015 and '20 we should be again in sweet spot with higher, much higher prices on the gas side, driven by overall demand, driven by the fact that specifically China is moving very aggressively from coal-based power plants to gas-based power plants.

And today actually the market is quite divided. The prices for LNG in particular in Asia seem to be still pretty strong whereas obviously they are very depressed in North America because of the competition of the shale gas. Now a lot of, I believe a lot of the uncertainty on the price comes from the fact that certain operators or certain economies believe that we will be able to produce from shale gas in other parts of the world and in particular in Asia. But it's not a given that the efficiency that we have seen in the US can be replicated in other parts of the world.

So we see that some of our major clients, working both on onshore projects - and you know them; you know which projects we are talking about in Australia - as well as offshore projects which obviously include floating LNG, some of these major clients are still pushing forward for these projects, which are going to be producing, let's not forget, between 2015 and 2020 and not before. It's going to take between four to five years before these projects are coming onstream.

Now, yes, the costs in Australia are pretty high, but the reserves are significant. And the political situation in Australia and the visibility give a lot of comfort to the operators, probably much more than in other countries.

And where are the other countries with significant gas reserves? Obviously you will find West Africa with Nigeria. But today, even if the cost of LNG in Nigeria is probably lower than what it would be in Australia, the political uncertainty is higher. The other options would be Russia or -- just as an example of course. There are many other examples. But Russia or, say, the Bering Sea and so forth. And here again, we are finding some political uncertainty or at least, I would say, tax regime uncertainty and also project costs.

So I think what we hear today from our major customers in Australia is that most of these, the large projects, are still moving forward and we're going to see very significant investment both onshore and offshore in that country.

Now last question was about competitive dynamics. You're absolutely right. We continue to see Asian competitors, particularly on the onshore side, be very aggressive in the Middle-East. So they seem to have targeted the markets where there is the longest visibility, the best visibility, and where there are grass-root projects. And I cannot tell you today whether this is going to change

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in the near future. But basically the competitive environment that we have seen for the past 18 months seems to be still the same in that part of the world. And that's why we at Technip have to continue to focus on identifying all the projects in other countries and of different sizes of projects as well.

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**Tahira Afzal** - *KeyBanc Capital Markets - Analyst*

Thank you.

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**Operator**

We have now time for one, maybe two more questions. The next question is by Mr. Ian Macpherson from Simmons & Company. Please go ahead.

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**Ian Macpherson** - *Simmons & Company - Analyst*

Hi. Thank you. Thierry, could I have your thoughts on the Gulf of Mexico and the visibility for -- there are a couple of major spar developments that I know you're looking at and how you think the political headwinds in the Gulf of Mexico may or may not impact the later-stage development projects that are pretty well on their way?

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**Thierry Pilenko** - *Technip SA - Chairman and CEO*

That's a good question. You know probably as well as I do that the big issue in the Gulf of Mexico are the drilling permits, and drilling permits that are not being awarded at the speed that oil companies were expecting because of two things. First of all I think there is still some ambiguity about the interpretation of the rules and therefore there is ambiguity how to apply the rules. It's very difficult for these permits to be granted.

However, we start to see some positive signs. For example, the Jack and St. Malo award for us. I wouldn't say was a surprise because we've been working on that project for, on the preparation of that project for quite awhile. But that was a positive sign that things are slowly going back to normal. But at the end you need drilling rigs and you need to drill those wells. So definitely there will be an impact on the award of floaters or possibly subsea systems.

The other element I think is from my perspective I think the government wants to see significant progress on the development of the containment system, which of course this containment system is there in case another incident happens. And I'm sure that all our customers and all the drilling companies are doing everything to ensure that this type of Macondo incident will not occur again, but I think there will be much more comfort from the authorities once the containment system is decided and moving forward.

Now in terms of our business, as we have communicated already earlier in 2010, to some extent we've been lucky that the Macondo incident did not directly affect our operations in 2010. But we have seen some delays in future awards and it's impossible for me at this stage to tell you when spars will be awarded. But something we know is that for certain fields, which I'm not going to mention here, the spar solution is by far the preferred solution. So it's not about if. It's really about when.

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**Ian Macpherson** - *Simmons & Company - Analyst*

Okay, thanks for that. I'll turn it over. Thank you.

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**Operator**

Thank you. Our last question is by Mr. Julien Laurent from Natixis. Please go ahead.

**Julien Laurent - Natixis - Analyst**

Yes, hi. Quick question about the utilization of capacities. You've mentioned, 76%. I wanted to be sure if it's for the full year 2010 or just Q4.

And what sort of utilization do you plan in your 2011 guidance?

And furthermore, another question about the poor level of margin in Q4 for the Offshore. Do you have any explanation?

And last question. Could you quantify the specific CapEx you plan for the new pipe-lay vessel in Asia?

**Thierry Pilenko - Technip SA - Chairman and CEO**

Julian? Do you want to --

**Julian Waldron - Technip SA - CFO**

Yes. So vessel utilization, the 76% is Q4 and the full year is 74%.

**Julien Laurent - Natixis - Analyst**

Thank you.

**Julian Waldron - Technip SA - CFO**

For next year we see good utilization in particular of our pipe-lay vessels. As I mentioned earlier, I think we see it as quite difficult to fit in much more pipe-lay activity in 2011 given the schedule of those assets. Similar to 2010, the utilization of the diving supports or light construction vessels is more open.

In terms of the manufacturing plants, we had good utilization in the back end of the year. In 2011 we'll have a low period in the first quarter. We have a shutdown at the moment in Victoria. But the activity in Le Trait is very strong. And we expect that to continue through the year.

In terms of the pipe-lay vessel that we announced this morning, not going to give an absolute amount of CapEx for that. There are still one or two things we still need to negotiate. But the Apache II hull, when it was bought was bought for around EUR70m and we think a new build is at least comparable with that.

And your third question was --

**Thierry Pilenko - Technip SA - Chairman and CEO**

Offshore margins in the last quarter.

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**Julian Waldron** - Technip SA - CFO

Offshore margins. I try to encourage you not to look at quarters. The absolute numbers in Offshore are so small that if you look back over the last five or six quarters you've had some very good quarters and some quite low quarters. Overall, however, the profitability is supporting the good progress we're making on the On/Offshore side. In Q4 we took a couple of million euros for under-activity in the Pori yard and that's the principle reasons<sup>2</sup> for that being a little bit slow.

**Julien Laurent** - Natixis - Analyst

Thank you.

**Julian Waldron** - Technip SA - CFO

Thank you.

**Thierry Pilenko** - Technip SA - Chairman and CEO

Thank you very much for attending the conference call and looking forward to seeing you during the road show.

**Julian Waldron** - Technip SA - CFO

Thank you.

**Kimberly Stewart** - Technip SA - VP, IR

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

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