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PRESENTATION

Operator

Good morning. My name is Melissa, and I will be your conference operator today. At this time, I would like to welcome everyone to the TechnipFMC Second Quarter Earnings Call. (Operator Instructions) Thank you.

I would now like to turn the conference over to Mr. Matt Seinsheimer. Please go ahead, sir.

Matthew Seinsheimer - *TechnipFMC plc - VP of IR*

Good afternoon and welcome to TechnipFMC's Second Quarter 2017 Earnings Conference Call. Our news release and the financial statements issued yesterday can be found on our website.

I'd like to caution you with all respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements.

Non-material factors that could cause our actual material results to differ from our projected results are described in our most recent 10-K, most recent 10-Q and other periodic filings with the U.S. Securities and Exchange Commission, the French AMF and the U.K. Financial Conduct Authority. We wish to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future event or otherwise.

Because this is the second quarter of operation following our merger, we have prepared pro forma financial statements for 2016 as if the merger had been completed on January 1, 2016. All prior-year quarter comparisons are to these pro forma results.

I will now turn the call over to Doug Pferdehirt, TechnipFMC's Chief Executive Officer.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Good afternoon, and thank you for participating on our second quarter earnings call.

Before I address the second quarter performance, I want to acknowledge that the company filed an 8-K on Monday advising that we would be restating our earnings for the first quarter. We identified errors related to the rates used in the calculation of foreign currency effects on some of our engineering and construction projects. I am confident that we have corrected these errors and have made the appropriate changes to our internal controls to prevent this issue from reoccurring. Maryann Mannen, our CFO, will provide additional details in her remarks.

Moving to the second quarter. I will give a brief overview of our operational results, discuss our market outlook and provide an update on our key value drivers. Maryann Mannen will then review our financial performance in more detail and update our guidance for 2017 before opening the call for questions.

Second quarter results built upon the strong performance we delivered last quarter. Total revenues for the quarter were $3.8 billion. Total company EBITDA of $501 million grew versus prior-year quarter despite a revenue decline of 22%. This solid performance reflects our strong execution and the impact of the significant actions taken to permanently reduce both infrastructure and product costs. Total company EBITDA margins were 13%, with all segments posting significant increases from prior-year results.

Subsea EBITDA margins were 21.8%, up 490 basis points. Onshore/Offshore EBITDA margins were 10.4%, up 590 basis points. Given the ongoing strength in this segment, we have increased our Onshore/Offshore margin guidance for full year 2017. And EBITDA margins for surface technologies were 12%, up 910 basis points.

Total company orders for the quarter were $3.2 billion, and we ended the quarter with $15.2 billion of backlog. Our balance sheet remains strong, with net cash of $3.4 billion.

We remain focused on returning capital to our shareholders. We are committed to completing the $500 million share repurchase authorization by the end of 2018. And the TechnipFMC Board of Directors has recently reaffirmed their intention to declare a quarterly dividend following the third quarter results.

We achieved several project milestones this quarter as a result of the solid project execution I was just mentioning. Prelude FLNG left the South Korean shipyard just before the close of the quarter and has arrived in Australia. The spar for Statoil's Aasta Hansteen project arrived on site in Norway and was successfully righted on location. First production milestones were achieved on both Total Moho Nord in Congo as well ENI Jangkrik in Indonesia.

We continue to make good progress on Yamal LNG, with commissioning of the first train on schedule. Construction is almost complete on the 142 modules, and we have delivered 109 modules to the site in Sabetta. Lastly, the Statoil Trestakk iEPCI project in Norway is progressing well. And we remain confident that this fully integrated Subsea development, the first of its kind, will deliver both an accelerated schedule and cost savings to the customer.

Moving to the market outlook. TechnipFMC is uniquely positioned across the globe in both short cycle and long cycle businesses. In North America, unconventional resource development continues to lead short cycle activity. We have experienced stronger demand for our pressure pump -- for our pressure control equipment in 2017, driven by increased activity and greater completion intensity.

Fleet reactivations continued sequentially, but did moderate somewhat in the quarter, as we had suggested it might on the first quarter call. However, the growth in the installed base generates a higher level of consumable demand that requires our inspection, maintenance services and, eventually, product replacement.

Activity levels in our Surface Technologies segment outside of North America remains resilient, although pricing continues to impact near-term profitability. Pricing has stabilized in most international markets, with only limited improvement in a few select markets.

The Middle East and North Africa continue to offer the best near-term outlook for our surface business with a strong position both on land and in shallow water as well as opportunities in the North Sea.

Moving to longer-cycle businesses. Natural gas continues to take increasing share of growing energy demand. Despite near-term supply concerns, projects with low-cost solutions are moving forward.

In the quarter, we were awarded work on 2 important gas projects. TechnipFMC was awarded an important integrated project, including both the Subsea and FLNG packages on the ENI Coral project, with a revenue stream that extends through at least 2022. Following Shell Prelude FLNG and Petronas Satu FLNG, this award further demonstrates our leadership in the FLNG market.

Additionally, Novatek announced the frame agreement with TechnipFMC to design and develop future LNG plans for Arctic LNG 2 and subsequent projects. As a reminder, Novatek is the majority owner and operator of the Yamal LNG project. Our partner is looking to develop solutions that significantly improve the economics of LNG development in the Arctic region, transforming these world-class reservoirs into low-cost feedstock that can compete on a global basis. This project is a tremendous opportunity for us to demonstrate the value we bring through early engagement of our extensive front-end engineering capabilities. We are honored that Novatek has again chosen TechnipFMC as a key partner for this new endeavor.

Given the outlook for demand, as well as our own conversations with customers, we remain confident that the industry will make further LNG investments in the near to intermediate term. These large projects, whether they be onshore or offshore, can take 5 to 7 years to move from sanctioning to first gas. TechnipFMC can now address this next wave of investment as a fully integrated provider of front-end engineering capabilities, world-class project management, and EPCIC capabilities and gas processing technologies onshore while providing an even higher level of integration offshore with a complete Subsea production architecture included.

Tender activity also continues for non-LNG downstream projects in both refining and petrochemicals, focused primarily in the Middle East, Asia and Russia. The most likely awards in the near term are driven by expansions to existing facilities, an example being the MIDOR refinery expansion in Egypt. For these opportunities, we can leverage our experience as the initial contractor to significantly improve project execution and provide greater certainty to project scheduling.

We are also pursuing new opportunities where we can compete on our technical strengths. Our project management consultancy practice leverages our world-class project management skills to provide alternative solutions to the full-scale EPC contracting model. Our process technologies business continues to serve as a key market differentiator with a strong portfolio of unique technologies that serve a broad range of end markets.

Turning to Subsea inbound. Orders improved sequentially to $1.8 billion, driven by a diversified mix of order activity. For the first half of 2017, we had strong Subsea inbound of $2.4 billion, which keeps us on track to deliver a step up in inbound compared to the $3.9 billion in orders reported for the full year 2016.

In Guyana, we were awarded the subsea production system and umbilical for ExxonMobil's Liza project. For ENI's Coral project in Mozambique, our integrated offering included the SURF installation package, as well as the previously mentioned FLNG package. These projects are particularly significant since both Liza and Coral represent pioneer projects in frontier basins with significant potential for future development.

Also, in the quarter, we were awarded expanded scope on the Statoil Visund Nord project in the North Sea. This is our fifth fully integrated iEPCI award and our second for Statoil, who is realizing the benefits of our iEPCI model on their Trestakk project.

Subsea services expanded its Riserless Light Well Intervention business in Asia-Pacific, announcing a frame agreement with Woodside Petroleum, building on the agreement announced earlier this year with INPEX. We continue to view Subsea Services as an important growth opportunity.

And in Brazil, we received new orders for flexible risers from Petrobras, an important award that demonstrates continued demand for this technology.

Strength in smaller awards were driven by Subsea tiebacks, product sales and our unique position with alliance partners resulting in direct awards.

As a reminder, last fall, we called for an inflection in Subsea order activity in 2017. Over the first 7 months of the year, 5 major projects have been sanctioned: BP's Mad Dog 2, Shell's Kaikias, Noble's Leviathan, ExxonMobil's Liza and ENI's Coral, with the related award of Subsea equipment packages and SURF contracts. This market activity already exceeds the amount of major Subsea project awards in all of 2016.

Looking ahead, we are tracking 18 large projects on our Subsea opportunity list, which could be sanctioned over the next 24 months. This project list represents approximately $15 billion of combined Subsea scope. Given the breadth of our product and service offering, we are well positioned to compete in some capacity on this entire set of projects.

On the strength of our first half Subsea inbound, we are well positioned for a step-up in full year inbound versus 2016. In the second half of the year, we are anticipating 2 or 3 of these named projects to be awarded, with the remaining inbound to be met with incremental Subsea service, product and small project awards. We are tracking the progress of our integrated FEED portfolio and anticipate further iEPCI project conversions in the coming quarters.

Despite our internal conviction in the order outlook, we continue to closely monitor customer activity in the context of oil price uncertainty. We recognize that the risk of further project sanctioning delays has increased in the current environment. However, project economics have improved considerably since the market peak. Many projects make economic sense below $50 oil, some far below that level. With our unique business model, we are confident that we can continue to further reduce project breakeven levels, allowing for development of an even greater number of deepwater assets.

Independent of the timing of the market recovery, as a result of our merger, we are focused on delivering at least 300 basis points of incremental improvement to our financial returns through 2019. The key drivers of this plan are largely within our control: $400 million of cost synergies to be realized in full by 2019; tax savings of at least 300 basis points before considering any potential changes in revenue mix; and a continued focus on how we manage our capital.

With respect to the balance sheet, we have received approval by the U.K. courts to create the distributable reserves needed to manage our capital allocation strategy. This milestone allows us to begin a disciplined share repurchase program, with the goal to buy back $500 million in total by the end of 2018.

Additionally, the TechnipFMC Board of Directors has reaffirmed its commitment to declare a quarterly dividend following the release of our third quarter results.

In closing, we have delivered another strong quarter of operating results. Our first half performance gives us confidence in our ability to successfully deliver our updated 2017 guidance. We had a solid improvement in inbound orders across all segments, nearly doubling the inbound from the prior quarter. We remain confident in a step-up for full year Subsea inbound, although the recent commodity uncertainty could result in a slowing in the pace of recovery.

Despite the external environment, I have the utmost confidence that we will continue to deliver on the commitments we have made both to our customers as well as the investment community. Meeting these commitments is dependent upon the successful integration of TechnipFMC, and I am encouraged by the collaborative efforts I have witnessed as I have traveled the globe. I am most proud of the over 40,000 women and men of TechnipFMC and acknowledge their relentless efforts to transform our company and our industry. The team remains focused on operational excellence on our current projects, demonstrated by the achievement of key project milestones I described earlier, accelerated development of unique integrated technologies, creating real structural improvement in project economics, further differentiating TechnipFMC, and the collaborative approach to identifying additional integrated offerings across our portfolio, all while delivering solid operational results.

I will now turn the call over to Maryann.

Maryann T. Mannen - *TechnipFMC plc - CFO and EVP*

Thanks, Doug. I am pleased to report our solid results for the second quarter. On a pro forma basis, adjusted EBITDA increased to $501 million, up 44% from the prior quarter. Margins improved 600 basis points, we think very good performance when considering revenue has declined 22% year-over-year.

Diluted earnings per share from continuing operations were $0.45 when excluding after-tax charges and credits of $0.10 per diluted share. Included in these quarterly results are the after-tax charges and credits associated with our merger transaction and integration, our estimated purchase price accounting charges and restructuring and other severance costs totaling $65 million.

The balance sheet remains strong with a net cash position of $3.4 billion. And we will be returning some of this capital to shareholders in the current quarter as we begin our share repurchase activity.

Backlog stands at $15.2 billion, reflecting the strong order intake we experienced in this period.

Moving to our segment results. Subsea reported $1.7 billion of revenue in the period. On a pro forma basis, quarter-over-quarter revenue comparisons were negatively impacted by lower project activity in Europe and Africa due to reduced inbound in previous years, resulting in lower project backlog coming into the current year.

Adjusted EBITDA for the segment was $377 million, with a margin of 21.8% when excluding identified charges of $46 million. These margins reflect strong project execution as we recognized significant project milestones within the business, such as Moho Nord, Kaombo and Jangkrik. Also, contributing to our operating margin performance was our ongoing cost reductions and restructuring activities.

Other highlights from this segment that I'd like to point out would be the strength of inbound orders in the quarter, as they more than doubled sequentially, resulting in a book-to-bill of 1. Segment backlog exiting the quarter was $6.2 billion. Please keep in mind that we do not backlog the majority of our Subsea services revenue.

Moving on to our Onshore/Offshore segment results. Onshore/Offshore reported $1.8 billion of revenue in the period. On a pro forma basis, quarter-over-quarter revenue comparisons were negatively impacted due to the completion of several projects since the prior-year period, most notably in the Middle East and Americas.

Adjusted Offshore/Onshore EBITDA was $188 million in the quarter, with a margin of 10.4% when excluding benefits of $28 million, which resulted from successful resolution of pending project disputes, including the Algiers Refinery and Dong Hejre platform. Our profitability improved year-over-year despite the 20% revenue decline as we recognized the achievement of several key construction milestones. Inbound orders in the quarter were $1.1 billion.

An item of note that pertains to inbound orders in the quarter is that the FLNG scope of the ENI Coral project is not fully consolidated because of the joint venture structure. As a reminder, we are partners in the FLNG scope and do not have majority ownership. This portion of our work on the project will be reported in net income of noncontrolling interests. The order intake recorded in the On/Off segment reflects only the work awarded directly to TechnipFMC by the joint venture, which was just under $300 million in the quarter. As for the SURF scope of the project, this will not be included in the joint venture and will be reported in the Subsea segment.

Moving to our Surface Technologies segment. Surface Technologies reported $300 million of revenue in the period. On a pro forma basis, revenues were unchanged from the prior-year quarter. Strength in North America land was partially offset by the decline in the international land market.

Adjusted EBITDA of $36 million in the quarter, with a margin of 12% when excluding charges of $23 million. Our second quarter in this segment has typically been our weakest margin quarter. Adjusted EBITDA margins increased 910 basis points despite the flat revenue year-over-year. Operating performance improved significantly year-over-year, primarily due to the benefit of product mix related to fluid control sales and a more favorable cost structure.

We delivered another solid quarter on our fluid control business that would serve the pressure pumping market as we saw hydraulic fleet reactivations continuing throughout the quarter. Segment backlog continues to be primarily tied to our international business as it tends to be more longer cycle in nature.

Let's turn to the corporate items in the quarter. First, we issued an 8-K yesterday to report changes to our Q1 2017 reported financials. We recognize the concern this may present. The necessary changes were the result of errors in the computation of certain FX results due to the use of incorrect rates. Management identified the issue while reviewing the balance sheet position and future anticipated gains and losses. We have conducted a thorough review. We have improved the internal controls and are confident that we have taken the necessary actions to assure this will not recur.

Let me also note the following summary points. There is no impact to the operational performance of the company. With respect to guidance, foreign exchange gains or losses were not included, so no update was needed as a result of the restatement. This issue applies only to natural cash flow hedges. There was no impact to derivative-based hedges. This has no impact on cash balances and had no impact on the backlog figures presented in our original Q1 filings.

Now let's turn to corporate items in the quarter. Reported corporate expense was $122.3 million. When excluding charges, corporate expense was $99 million. Included in the quarter results is $62 million of losses associated with foreign currency. Corporate costs excluding these items were slightly below our estimates.

Next, net interest expense was $72 million and includes $62 million of additional liability to the joint venture partners.

Moving on to the tax provision for the quarter. We reported a tax provision of $86 million, resulting in a tax rate of 35.2%. When excluding the impact of a charge associated with a project cancellation in Venezuela, the effective tax rate was 25.9%.

Now let me provide an update on our merger-related synergies. We remain on track to deliver at least $400 million of pretax synergies. As we have previously discussed, we have allocated saving targets across 3 major categories. First, corporate and other has been the primary source of early quick wins. Savings here have come from real estate, centralized business functions and professional services. We are also making good progress in securing near-term savings from our supply chain. And operations remain the greatest source of savings, and actions continue to ramp with the acceleration of our integration activities.

In total, we have taken specific actions through the first half of the year that will generate more than $100 million in run rate savings by the end of this year. We will continue to give you quarterly updates on our progress using the same format and methodology. As you can see, we are making good progress in securing these savings needed to meet our cost savings goal. We remain confident that we will deliver the targeted run rate savings of $200 million by year-end and a full $400 million in run rate savings by the end of 2018.

Looking forward, we have made updates to the full year guidance we provided in the first quarter. The full table of guidance, including updates, can be found in both the second quarter press release, as well as the presentation slides that accompany this earnings call.

Changes to previous guidance are as follows. For Onshore/Offshore, due to the strong performance in the first half of the year, we now expect segment EBITDA guidance to be at least 8%, excluding charges for the full year, which is an increase of 150 basis points versus prior guidance. Going forward, net interest expense should be $20 million to $22 million per quarter in 2017, and does not assume any future increases to partner liability. For the full year, we now expect our tax rate to be in the range of 28% to 32%. We expect to spend approximately $125 million for merger and integration costs in the back half of the year.

Beyond these updates, we are reiterating our business segment expectations. Subsea revenue of at least $6.1 billion, with adjusted EBITDA margins of at least 17%; Onshore/Offshore revenue of at least $7.3 billion, with revised EBITDA margin guidance of at least 8%. And for Surface Technologies, we continue to expect revenue of at least $1.4 billion for the full year, with adjusted EBITDA margin of at least 13%. Capital expenditures were $56 million in the period. These expenditures totaled $108 million for the first half of 2017. We continue to expect capital expenditures to be approximately $300 million for the full year.

In conclusion, we had solid performance in the second quarter, given our execution, project milestone achievements and the benefits of our restructuring initiatives over the last year. Subsea inbound of $1.8 billion supports our belief in the inflection for award activity and order inbound for Subsea. We are cautiously optimistic about the second half inbound for 2017. Our Onshore/Offshore business benefited from solid project execution and delivery against key milestones. We expect Surface Technologies to benefit from the improving market activity in North America in the back half of 2017 given the strength in the consumable business and as international pricing pressure further stabilizes. We believe this performance will support achievement of our 2017 targets.

Operator, you may open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Michael Rae with Redburn.

Michael Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

The first is just looking at Slide 8 of the presentation and the way that you've categorized these projects. It looks like 3 of them have grown in size since the 1Q presentation. Does that signify that they've become integrated packages? Or is there something else going on there? And then I'll just save my follow-up, if that's okay.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Michael, thank you very much for the question. What we'll do every quarter is we'll go back and we'll look at the opportunities as we see them. We'll make any adjustments that we believe are important, either because of the scope of the project changed or the probability that the project changed. And we'll just keep the list updated. It's our way of just trying to give you the most current information that we have and the most current knowledge of the projects, not necessarily indicating that it's an integrated project. Because what we're doing here is we're indicating both the equipment package scope as well as the installation and flow line scope, the combined value. So we're not trying to signal necessarily that it is likely to be awarded as an integrated project or non-integrated. Most likely, it's more about a change in the scope of the project.

Michael Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

Okay. And just as a follow-up, I mean, I'm just thinking back to the share price move since the merger. It's clearly been a bit of a roller coaster. I'm just wondering if you perceive there to be a difference in what you're being asked for by your investors in the U.S. versus Europe, and just in terms of the strategy and disclosure and so on, and how you're dealing with that.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Thank you, Michael. An insightful question. In terms of the strategic rationale for the transaction and the understanding of what we accomplished by bringing together FMC Technologies and Technip to create TechnipFMC, I think it's well understood and well appreciated. There are differences in style. And I think what we are doing, and I hope that you were able to observe that we have listened and responded to some of the feedback in terms of broadening and changing some of the information that we were able to present last night as well as responding to the needs in regards to putting more disclosures in the press release and attaching the deck as well. So I just think it's important to understand. I think all of our investors, again, deeply appreciate the strategic rationale and are supportive of the change that we're creating to the industry, a necessary change, to bring forward projects by significantly improving the project economics. There's just differences in style, and I hope that we're making good progress addressing that as well.

Operator

Your next question is from Kurt Hallead with RBC.

Kurt Kevin Hallead - *RBC Capital Markets, LLC, Research Division - Co-Head of Global Energy Research and Analyst*

So I wanted to just get a feel on the estimation for the margins going forward for Subsea. Obviously, the run rate being below where you currently are. I wanted to just get a general sense as to why you think margins will -- should come down in the back half of the year versus what you've experienced so far.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Yes. Kurt, as I've indicated in past quarters, I mean, it's a challenging market, and it's a challenging environment. And we'll continue to do everything we can to ensure that our cost structure remains competitive as the market dynamics evolve. That being said, as we indicated in our prepared remarks, we did achieve the completion of several major projects in the quarter, which had some benefit to the quarter, but also, therefore, creates some additional capacity or a potential underutilization in the coming quarters. So I think it's the balance of understanding how our projects or how we've completed some of our projects, the challenges that we'll have in the market as we go forward as a result of the timing of the inbound. An important quarter for us, as we pointed out, $1.8 billion in Subsea inbound, tripling what we had in the first quarter and setting us at a very strong position for the first half of the year. But we have to look at that, and we have to look at that mix of inbound, when it's actually going to be converted into revenue. We're a big -- we're a broader company now. Some inbound, we can convert quicker. For instance, equipment manufacturing and the installation, which obviously comes at a later phase. So we have to look at all these things and take those into consideration. And when we did, we felt that we made the prudent decision by maintaining the Subsea margin guidance where it was, realizing that there's some additional challenges that lie ahead. Finally, we have seen the inbound in the inflection -- or, the inflection in the inbound, excuse me, and we're committed to delivering world-class projects to our customers. And as a result of that, we're going to have to make some strategic decisions on bridging some investment in people and capabilities and competencies through this period of time that will ensure that we'll be able to deliver these projects world-class to our customers.

Kurt Kevin Hallead - *RBC Capital Markets, LLC, Research Division - Co-Head of Global Energy Research and Analyst*

Great. That's a very detailed answer. I really appreciate that. Maybe just one follow-up. Can you talk to some of the project awards that you've now received year-to-date and some of the ones that you expect coming in the back half of the year? Where would you put the inbound -- where would you put the margins on that inbound vis-a-vis with your expectation for the second half of the year? And then if there's an improvement to that margin, how much of that margin improvement do you think is due to some of the technologies that you're bringing versus the integrated approach?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Well, the market's not getting any easier, Kurt. So when I look at the second half of the year for those awards that will be, if you will, 4 bids and a buy, that market place remains very competitive. And there are quite a few, there are a few of those on the list. Where we're really focused on and where we can create value for our customers is by early engagement, in other words, being involved in the pre-concept, concept, pre-FEED and FEED stages, where we can introduce technology, as you mentioned, and where we can bring forward our full integrated offering. It's on those projects that we can deliver significant value for our customers while ensuring an adequate return for ourselves and our shareholders. So it's a mix. The open market, if you will, is quite competitive, but we're uniquely positioned because we have the complete integrated offering now as TechnipFMC. And we also have new technologies, as we talked about, that we were able to deploy on a project like ExxonMobil Liza, where it was competitively tendered, but we were able to demonstrate that we had the right solution for our customer to meet a fast-track delivery schedule, the Coral FLNG project, which we were able to deliver as an integrated project, delivering both the FLNG vessel as well as the Subsea package as a direct award, not as a competitive tender on the Subsea portion of that award. So we have these unique positions that allow us to, if you will, have certain activity that is not exposed to the competitive market, including, by the way, and a very important piece of our business, is the direct awards that we received from our partners, and then there's the portion that's open to the competitive market. We do everything we can in that situation to demonstrate to our customers where we can bring value in other ways. But in some cases, it is just an open competitive tender. And again, there's a mix of those on the opportunity list that I've provided.

Operator

Your next question is from Phillip Lindsay with Credit Suisse.

Phillip Anthony Lindsay - *Credit Suisse AG, Research Division - Research Analyst*

First question is, Q2 book-to-bill, clearly, above 1. That's probably better than, I think, most of us would have anticipated. But I think backlog actually declined several hundred million. So is that a sort of project cancellation or FX? Perhaps you can just explain that. And then, in addition to that, I'd like to understand better the nature of work that you've received that you didn't formally announce to the market, so in terms of services, tiebacks, directed orders from alliance partners, smaller competitive awards and so on. Can you just sort of comment proportionately what the inbound looks like for Q2?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Thank you for the question. And an important quarter for inbound, absolutely seeing a book-to-bill with a 1 in front of it, it's been some time in our industry, so we're very proud of that. That doesn't mean that we won't have lumpy quarters going forward, but we are very pleased with the inbound level this quarter. Talking a little bit about that inbound, we had several major projects as part of that inbound, as we discussed in the prepared remarks, which is important. But really, all of the Subsea projects that have been awarded year-to-date, because of the breadth of TechnipFMC, we've been involved in one way or another. Maybe it was a product sale of umbilicals or maybe it was the installation or the Subsea equipment or the front-end engineering. But we're involved in almost all of these projects. You're right to point out that there was a healthy level of 2 things. One, Subsea services inbound, which is often underappreciated. It's resilient. It's -- we have the largest installed base of Subsea equipment in the world. In many basins, well over 50% of the install base. Globally, we have over 2,000 trees, 2,200 automation and control system subsea, 11,000 kilometers of flexible pipe and 5,000 kilometers of umbilicals. This is a solid platform for us to build our Subsea services offering and ensure our customers the ultimate uptime performance. In addition to that, there was quite a few smaller awards as we would refer to, I mean, in other words, below the threshold that we would issue a press release for a materiality point of view. And yes, a lot of those come as direct awards from our partner accounts. We work with them proactively. They have standardized suites of equipment, which allows them to order equipment in advance of a project to ensure short cycle time and accelerated first oil. I'll pass it over to Maryann, who will add additional comments on your question on the backlog.

Maryann T. Mannen - *TechnipFMC plc - CFO and EVP*

Phil, thanks for your question. So you're absolutely right. There were no order cancellations in any of the portfolios. This is just a normal currency adjustment as we move from period-to-period to bring it to accurate rates. So no order cancellation at all in any of those segments. It's just the impact of the remeasurement on that backlog based on current rate.

Phillip Anthony Lindsay - *Credit Suisse AG, Research Division - Research Analyst*

Perfect, that's what I thought. Okay. Second question, Doug, I mean, understandably the tone of language regarding the outlook is a bit softer versus Q1. Can you just help us understand the subtleties between the divisions in terms of outlook? Does Onshore/Offshore look relatively robust compared to Subsea? And has your service -- sorry, Surface Technologies conviction changed at all? And perhaps, in relation to that, could you comment on the potential needs for further restructuring across the group, over and above what you've already identified?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Okay, Phil. I'll try to address the question. So let's start with -- we'll go backwards kind of in the order that you presented the segments. So let's start with Surface Technologies. No, no change and probably the most resilient in this environment. What we have talked about the last several quarters is just wanting to temper the North America -- the robustness of the North America market with the reality of the international market and in the pricing pressure in the international market. This was simply a result, when the North America market slows down, assets and capabilities move into the international market, that has an effect on capacity, lowering price. When the North America market returns, those companies and assets tend to go back to the North America market. Our international market or the market outside of North America remains very robust in terms of activity level, but does have headwinds in terms of pricing. So Surface Technologies, absolutely no change, and the outlook remains strong. In terms of Onshore/Offshore, as you know, this is a business that it's really triggered around very large project awards. We have a nice stable foundation from our process and technologies business, which is a real differentiator for our company. And we, obviously, are executing some very large projects and executing those projects well, which include levels of reimbursable activity. But regarding the inbound in the second half of the year, yes, we're tracking 3 to 4 large projects. And again, depending upon the timing of those projects being awarded, it will create a certain level of unevenness throughout the quarters, throughout the coming quarters in Onshore/Offshore. But we are tracking very closely several large projects. And in terms of Subsea, as I've discussed before, I think we've given a strong visibility into the view again. Remember, that there's a strong foundation from the Subsea services, if you will, kind of reoccurring activity that we have as a result of a large installed base. And as we said, we expect 2 to 3 large projects to be awarded in the second half of the year. We continue, and I think this is important, to have the unique opportunity to have the integrated feed studies. And we have a large portfolio of integrated feed studies. So we now can watch those integrated feed studies as they mature to the point of conversion. And the ability to be able to move those and convert those projects, in most cases as a direct award, can be quite significant. And just to give you an example, when I look at that portfolio, we have over $1 billion of projects that could be direct award and converted into integrated EPCI projects in the coming quarters. Finally, in terms of restructuring and costs, of course, we'll stay on top of it. We continue to look at it. We continue to stay focused on delivering to our synergy targets in regards of the merger as well.

Operator

Your next question is from Sean Meakim with JPMorgan.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

So maybe could we just drill into Yamal a little bit? Just thought maybe we could drill into the increased partner liability, payable relative to the guidance, maybe just walk through the mechanics there a little bit. And as we kind of -- as we complete the China module deliveries, does that also lead to some further continued seeing release this quarter?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Okay, Sean. Thank you very much. So look, the Yamal project, very, very proud of the progress by the team. This is a massive project. Reached several additional milestones this quarter. We talked about delivering the final modules out of Indonesia. And just a few remaining modules to be delivered by the end of the summer -- excuse me, to be completed by the end of the summer. Delivery takes a bit longer. It's a long route. But they'll be on the water and headed to Sabetta by the end of the summer. So the team has done a phenomenal job and continues to stay focused on, first and foremost, safety and well-being of a very large workforce and meeting the deliverables for our customer. So Yamal continues to go quite well. When we complete activity at a yard, there is often -- it doesn't just end when the module ships. There's always additional closures that need to be done, additional considerations that need to be taken care of. And then only at that point can we close out that particular yard and move on. And so, Sean, I guess the point that I wanted to maybe make was, you talked about some holdback releases. This is really a project where we're just executing very, very strongly. So in terms of holdback releases, there's a lot of the project left ahead of us. I mean, there's a lot of work left to be done. There's an important delivery milestone, which is the commissioning, later this year, and we remain very much focused in getting all the modules still delivered on-site and moving forward with all the construction. And again, although we're delivering a large portion of the project, there's many other contractors involved, delivering different portions of the overall project. And I'll have Maryann add some additional color.

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Maryann T. Mannen - *TechnipFMC plc - CFO and EVP*

Okay, Sean, thank you. So maybe just a little bit more, to add a bit more color to Doug. Keep in mind, we'll be working on this project for the next several years. This project will extend out probably beyond 2019. As you may remember, at the end of 2016, we took controlling interest. So you see a bit of a change in the way that we now report our controlling interest with respect to that. So to your question, as profitability may improve in the project, it increases the ultimate liability that we will pay to our partner. So we established a liability at the end of 12/31. And as we reach key milestones and improve that, we record that incremental, if you will, liability, which will eventually be paid to the partner. And that's recorded through the interest expense line, as I called out. We had a similar result in the first quarter of 2017 as well.

Sean Christopher Meakim - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay, thank you for that detail. I appreciate it. And I was also just thinking about how the cycle is evolving in terms of your relationships with your customers. Now you're obviously very focused on taking costs out of projects, perhaps make them economic and help your customers move forward on FIDs with this within Subsea as well as the installation portion as well. As your customers try to take advantage of the current environment, we've seen some weakening of contract terms within Offshore drilling, and I wanted just to get your sense of how contract negotiations are changing the cycle, thinking about the structures and types of things that perhaps were part of the contract last cycle that customers are looking to make adjustments to them. Could you give us a sense of how that's evolving?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

An important question. When you are in that, what I'm calling, the competitive or the open market, in an environment as we are in today, it is not only a pricing discussion. It's also a discussion around terms and conditions. So I think you correctly point that out. Again, our company is uniquely positioned because we are not solely exposed to that market. We do participate in that market, and we will continue to, but only at a level of -- only at a level that we're willing to accept, be that in terms of returns or be that in terms of risks associated with terms and conditions. More importantly, when we're talking about partners, when we're talking about integrated feed converting into integrated EPCI direct awards, these things are -- this is a different discussion. This is a discussion about unlocking the potential of a Subsea asset. In some cases, it's unlocking the potential of a customer's asset that otherwise would not have been unlocked. So it's a completely different discussion. And we're uniquely positioned to have quite a bit of our exposure in that area not being entirely exposed to that open market. And again, there it does come down to relationships, there it does come down to the discipline within the organization and the rigor and the tendering process to be able to be ensured that we can identify those risks and mitigate those risks before accepting or before tendering on such a project.

Operator

Your next question is from Fiona Maclean with Merrill Lynch.

Fiona Margaret Maclean - *BofA Merrill Lynch, Research Division - European Oil Services Analyst*

It's Fiona Maclean from Merrill Lynch. I've got 2 questions. The first one is about your synergy target. You've had this $400 million as a target for over a year now, so it's actually since you've announced the transaction. We've seen a number of oil service companies further extending their own cost-cutting programs. So I wondered if you could enlighten us as to whether we should expect to see any upside to that $400 million number? And then, secondly, I just would like to get some clarification around the dividend. You say that we all get some type of confirmation of the dividend or the dividend policy following Q3 results. Does that mean we should expect to get the announcement on the day you announce the 3Q results? Or will it be at a different part of the fourth quarter that we get that information?

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Okay, Fiona. I'll start with the second one. So first and foremost, we've reached a major milestone which was to receive approval from the U.K. courts for distributable reserves. So we're now in a position to move forward. And as indicated, that means we can unlock the potential of our share repurchase program, which, as we announced last quarter, we have authorization from the Board of Directors for up to USD 500 million by the end of 2018. In regards to the dividend, what will likely happen is the dividend would be declared by the Board of Directors. So on the day of our board meeting, following them declaring the dividend, we would put out a separate press release announcing that the dividend has been declared, the record of date and the amount. And that would typically be shortly, just shortly before our scheduled earnings day.

Operator

Your next question is from Bill Herbert with Simmons.

William Andrew Herbert - *Piper Jaffray Companies, Research Division - MD, Head of Energy Research and Senior Research Analyst*

Doug, with regard to your Subsea customer dialogue, I was wondering if you could just kind of discuss the respected weighting of the variables that are driving project approval? I mean, clearly, project economics is one of them, which interplays with threshold oil prices. But I'm just curious as to whether you sense a growing sense of urgency on their part with regard to filling what appears to be a growing supply vacuum over the next 3 to 5 years.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Bill, thank you very much for the question. Look, there's always a focus -- our customers are always focused on ensuring that they're delivering their best returns for their shareholders and ensuring that they're getting the best value out of the project. So there's always that economic discussion. You raise a very good point. Just 6 to 9 months ago, that was the only discussion. And quite frankly, we spent a period of over 5, 6 quarters where you would simply go back, you would present. And the answer was always, "Thank you very much. Can you go and reengineer?" Or, "Can you go and try to drive some more costs out of the project?" And that was really the extent of the discussion. It is true that over the last several quarters or a couple of quarters, to be more specific, the tone of the conversation has been more balanced around first oil, around accelerated schedules, around project certainty. So project certainty and schedule certainty has become as important as costs. That's where TechnipFMC is uniquely positioned because we are now the only company who installs Subsea -- who delivers Subsea installed on the sea floor. So that whole schedule certainty, that schedule risk, that interface between the equipment manufacturer and the installation company, which often resulted in variation orders, delays and demurrage incurred on the vessels, we now can manage that. And we have the full visibility into our manufacturing capacity as well as the vessel fleet so we can manage that to ensure that we have no downtime and we can drive accelerated and improved accelerated schedule -- accelerated first oil and improved schedule certainty for our customers. So that's clearly been the change in the tone. But there has been another change, and I think this is really important to understand. Our industry hasn't always -- has always been -- there's always been quite a bit of latency in terms of technology adoption. You hear about these wonderful technologies from some great technology companies within the oilfield services space. But they never really seemed to really make that impact, to really start to generate 10%, 15%, 20%, 25%, 30% of their revenue from those technologies. That's always been an issue in our industry. And I have to say, Bill, just within the last quarter, the amount of visits that we've had to our technology center where high-level customers are bringing their management teams to see what we are doing to transform the face of Subsea architecture simpler, lighter, more easily installable, more serviceable has really, really ramped up. I mean it's been a tremendous amount of my personal time and the time of our leadership team to host these visits, which really gives me a clear indication that they're serious about doing things differently. So when you put that together, we're really quite excited about where we are. Again, we have to be realistic. We have to understand that there's certain uncertainties in the market. And we'll remain balanced in our view. But certainly, our customers' behavior has been very positive.

William Andrew Herbert - *Piper Jaffray Companies, Research Division - MD, Head of Energy Research and Senior Research Analyst*

Okay. And then switching gears to an area where the visibility is pretty crystalline and that is with regard to the domestic Lower 48 fracking frenzy. And it just seems that our channel checks seem to be indicating that the visibility for increased capital commitment in terms of newbuild horsepower is rising fairly considerably, you're getting into more expensive rebuild, reactivations. I'm just curious as to whether -- I mean, you were correct in processing the sort of evolution of your orders over the first half, but I'm just curious as to whether you're expecting increased slope of recovery with regard to inbound for your frac-related business for the second half of the year.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

No, Bill. I think we've actually seen that in the first half of the year. We'll see what happens. But there was a lot of newbuild activity in the fourth quarter and the first quarter. And for us, it actually peaked early in the second quarter. Still, we're still at a very high level, again, and we have a higher installed base now. So that's very good from a service revenue and a consumables replacement, product replacement. But we'll see how that plays out, Bill. We're not necessarily seeing that same scenario when we talk to our customers in that part of our business. And before we go to our last question, I want to apologize to Fiona. I failed to address the question on the synergies. It's an important question. What -- we are absolutely committed to our targets of $400 million exit rate to 2018 to be realized in 2019, 50% of that by the end of 2017. Indeed, indeed, our teams, by working together and collaborating together, continue to identify synergies and additional synergies above our original expectation. We are focused on delivering those synergies and realizing those synergies and accelerating the realization of those synergies as opposed to necessarily raising synergy targets. There may be a time and a place, but I think what's most important right now given the industry backdrop and the challenging market that we're in is realizing and making real the synergies that our teams have already identified. But rest assured, they're working hard and have identified many synergies for us to work on. And I think we have time for one more question.

Operator

The final question is from Mick Pickup with Barclays.

Mick Pickup - *Barclays PLC, Research Division - MD*

Doug, you mentioned in passing risers in Brazil and Petrobras have put more orders in Flexi. Can you just update us on where we are on those gas risers and the issues? And some of your competitors have been talking about rigid being more in favor going forward, especially with the IOCs coming into the market.

Douglas J. Pferdehirt - *TechnipFMC plc - CEO*

Thank you, Mick. So first and foremost, what is being experienced is an industry problem. It's not isolated to any of the flexible riser providers. It's a known problem, by the way, it's a known metallurgical problem that occurs. But it occurs in a very unique set of circumstances. What we've been able to do now, by working closely with Petrobras, our partner, and being the leading provider of the technology, is to be able to isolate in which environment that the stress corrosion cracking actually occurs. In addition, we've been able to work with Petrobras to identify both near term and more permanent solutions for the longer term to ensure that the industry still has access even in that isolated application to this very important technology. The benefit from an efficiency point of view, the benefit from an installation point of view is significant for these developments. So we remain focused on solving the problem for the industry by working very closely with Petrobras. And I will point out, as I said in my prepared remarks, we did receive a significant order from Petrobras in the quarter for additional flexible risers.

Mick Pickup - *Barclays PLC, Research Division - MD*

Okay. And as a second question, for Maryann, obviously, you're executing very well, bringing in the cash on the projects. But we're seeing the net debt flat and working capital outgoing. How do you expect that to develop as we go through the year, especially considering progress on Yamal?

Maryann T. Mannen - *TechnipFMC plc - CFO and EVP*

Yes, Mick, thank you. You're right. We projected this year that given where we are in the construction phase in Yamal that we would be consuming some working capital this year. So what you're seeing actually in terms of the changes in the working capital is largely as we forecast, given the progress, significant progress being made. As Doug mentioned, most of the modules are completed, and we're moving to construction sites, or moving to the construction site in Sabetta. So we are largely on track as we had forecast.

Mick Pickup - *Barclays PLC, Research Division - MD*

Okay. And how do you see that progressing through the year?

Maryann T. Mannen - *TechnipFMC plc - CFO and EVP*

So we should see similar changes in the fourth quarter as we -- as you saw in the second quarter associated with that, with respect to Yamal.

Operator

I will now turn the call back over to Matt for closing remarks.

Matthew Seinsheimer - *TechnipFMC plc - VP of IR*

This concludes our second quarter conference call. A replay of our call will be available on our website beginning at approximately 8:00 p.m. British Summer Time today. If you have any further questions, please feel free to contact me. Thank you for joining us. Operator, you may end the call.

Operator

This concludes today's conference call. You may now disconnect.