THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TEC.PA - Q3 2014 Technip Earnings Call

EVENT DATE/TIME: OCTOBER 30, 2014 / 9:00AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Thierry Pilenko *Technip - Chairman and CEO*

Kimberley Stewart *Technip - Head of Investor Relations*

Julian Waldron *Technip - Group CFO*

CONFERENCE CALL PARTICIPANTS

Fiona Maclean *BofA Merrill Lynch - Analyst*

Guillaume Delaby *Societe Generale - Analyst*

Alex Brooks *Canaccord Genuity - Analyst*

Jean Francois Granjon *Oddo - Analyst*

Phillip Lindsay *HSBC - Analyst*

Jean Luc Romain *CM-CICC Securities - Analyst*

James Evans *Exane BNP Paribas - Analyst*

Christyan Malek *Nomura - Analyst*

Haley Silverman *Barclays - Analyst*

Mukhtar Garadaghi *Citigroup - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, good morning, everyone, and welcome to Technip's third-quarter 2014 results conference call. As a reminder this conference call is being recorded. (Operator Instructions). I would now like to turn the call over to your host for today's conference call, Mr. Thierry Pilenko, Tehcnip's chairman and CEO. Please go ahead, sir.

Thierry Pilenko - *Technip - Chairman and CEO*

Good morning, ladies and gentlemen, and 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; Virginie Duperat, Group Controller; as well as Kimberley Stewart, Aurelia Baudey-Vignaud and Michele Schante of the investor relations team.

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

Kimberley Stewart - *Technip - Head of Investor Relations*

Good morning. I would like to remind participants that statements made during the conference call which are not historical facts are forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995. Readers and listeners are strongly encouraged to refer to the disclaimers which are an integral part of today's slide presentation which you may find on our website along with the press release and an audio replay of today's call at technip.com. I now turn you over to Thierry who will go over the third quarter 2014 highlights. Thierry?

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Kimberley, and I start with slide 3 of the package if you have it in front of you. So third quarter showed solid delivery against our objectives and highlighted our capacity to drive strong order intake, we had EUR2.2b of order intake for the third quarter which is quite diversified by nature of contract size and geography. And I will describe it later on.

By working early with our clients across our activities, across our segments, we've been able to devise a collaborative approach that meets their needs in terms of cost reduction on complex projects. And that we believe will drive better cash flow as evidence with what we did on the Juniper project award, which is a project in Trinidad which is a combination of an offshore platform and a subsea system. I'll come back to that in a few minutes.

We did improve third-quarter sale and profit compared to a year ago notably in subsea with an operating margin at 14.3%. We continued to have momentum in optimizing our cost base with an SG&A down EUR43m and to streamline our business with the divestment of the Indian diving business. And we're in the process of closing our offshore wind activities in Scotland.

Moving to slide 4, the third quarter order intake confirms the range of opportunities that we have with Technip, by being involved early in the process, for example, with the BAPCO refinery FEED in Bahrain and the previously mentioned Juniper project in Trinidad. Projects that are also technology driven such as the Ascent project in USA with Technip's Stone and Webster appropriate technology, and also the development of new revenue streams with project management consistency for the RAPID refinery and petrochemical development in Malaysia. And this type of business gives us long-term visibility with a good risk low profile.

Technip is also well positioned in growing geographic areas as shown by awards such as the Bangka subsea project in Indonesia and of course the Iracema North in Brazil for the supply of high-end flexible pipe for the pre-salt. I'll come back to these points later giving some examples to illustrate Technip's ability to win a portfolio of diversified projects. But this portfolio that I want to focus on, the amount of that portfolio, which is more than EUR19b at the end of the third quarter, giving us very good visibility.

So I will now hand you over to Julian who will provide you with details on Technip's third quarter operational and financial highlights. Julian?

Julian Waldron - *Technip - Group CFO*

Thierry, thank you very much and good morning, everybody. I will start please on slide 6, third quarter subsea highlights. We'll start with vessel utilization. Vessel utilization in the quarter was 86%. This compared to 75% in the same quarter a year ago.

As you know we've reduced the number of vessels in the fleet to 29 today by selling our older, less versatile vessels and keeping and focusing on our high-end vessels. The impact is seen very much in this higher utilization rate. I note that the Deep Blue was in her planned maintenance in July and August, as we said she would. And she's now back at work on projects in the Gulf of Mexico.

The offshore campaigns were widespread during the quarter. Block 15/06, for example, proceeding well, good overall performance in the North Sea and projects as well in the Middle East and in the Gulf of Mexico. We continued to ramp up engineering and procurement on more recent projects such as Moho, T.E.N. and Kaombo, all of which are in West Africa.

In terms of assets and investments, our new chartered vessel, the North Sea Atlantic, started work with us during the quarter on the Asgard project in Norway. You may recall this is a new-build vessel, it's built and chartered to us by a third party. We have a purchase option on the boat and I think this is an example of our flexible and disciplined approach to investment in our fleet. The first 550 tonne PLSV in joint venture with Odebrecht arrived in Brazil and has in fact been accepted since by our client and we're pleased to say that she's started work ahead of schedule. Last, the Acu plant is performing in line with our expectations with good quality production.

Overall for the segment, revenue grew 24% and profitability at 14.3% was right in line with our expectations and the guidance that we gave for the quarters earlier on in the year. We're tracking well with the guidance we gave with subsea and this indicates I think a robust underlying business.

If I can turn to slide 7, onshore/offshore revenues were up 13% and the profit was in line with our July guidance of EUR70m. I note that our margin year to date is 5.2% which compares to that July guidance of 5% to 6% for the year, so again we're in line. Amongst the highlights in the quarter was the sail away of the Heidelberg Spar and the first steel cutting on a number of projects including FMB in Qatar, Martin Linge and now on four of the seven module fabrication yards in China for the Yamal project.

I would like to confirm that Yamal LNG is proceeding as planned. There've been no surprises or disruptions during the quarter or indeed since. Between the three contractors we now have over 2,000 people mobilized on engineering and procurement across nine engineering offices. And on site after the usual summer break we'll also resume piling work at site shortly. Given that progress was good, you can understand that revenue was higher than we expected in the quarter from Yamal. Elsewhere, the Burgas refinery is nearly finished and we're ramping up well on CPChem in the US.

Turning to Group financial highlights on page 8, Group revenue therefore was up 18% in the quarter and is up 16% year to date. And OIFRA was up 10% year on year. Now, underneath OIFRA we've isolated the restructuring and reorganization charges taken year to date. In the quarter these amounted to EUR34m of non-recurring charges. I'll come back to these and the cost savings that we are starting to see partly a result of these actions. The tax rate was in line with recent quarters at just over 29% and normalized net income was EUR158m.

If I turn to slide 9 and I'll try and cover the non-recurrent items in a little more detail. So, just to remind you ,at the start of the year we noted our intention to take a close look at costs and also at those activities that lay outside our core business. Already in the first half we implemented some of these actions and we accelerated in Q3. In particular, we decided to close our offshore wind business as Thierry mentioned and have taken the bulk of the cost to close out this business and its projects as a one-off charge in the quarter. The remainder reflects more general restructuring actions to take costs out. And I do just confirm that these charges are one-off and they relate only to restructuring and closure.

Overall this year we've taken around EUR40m of charges with a gain on the sale of the non-core TPS business in H1. Now, on the other hand, we can show a significant reduction in costs and these amount to EUR43m of OpEx over the first three quarters of the year, of which EUR21m was in the third quarter. We'll continue to take actions and to find ways to improve our competitiveness and our profitability over the coming quarters.

Slide 10, cash flow, cash flow was positive in the quarter; we generated EUR201m of operating cash flow. Our net cash after CapEx increased by EUR136m to a net cash position of EUR747m. Working capital was flat in the quarter and this is probably a little better than we'd indicated at the half-year. Overall I think if I look back at the last three or four quarters our working capital performance has been slightly better than we expected. But the overall trend when you look at projects and the cash advances that you would expect to see, and the recognition of revenue and profitability the cash performance I think is very much consistent and coherent with the overall business. We're moving forward well on projects as we mentioned and so some of those cash advances will move off the balance sheet in a modest consumption of working capital over the coming quarters.

Now, on slide 11 I'll pass through relatively quickly because our objectives are unchanged in every respect. In subsea year to date, the margin is over 12% as we said it would be. Margin will be between 13% and 15% in Q4 as we said it would be. And we expect that for the last nine months of 2014 the subsea margin will be above 14% for those nine months, again as we said it would be. In onshore/offshore year-to-date margin is 5.2% as I mentioned earlier which is in line with our full-year guidance of 5% to 6%.

I'll finish up with a couple of slides on order intake. So on slide 12, as Thierry mentioned, we took EUR2.2b of new orders in the quarter of which over EUR1b in subsea and just under EUR1b in onshore/offshore. And as you've seen, we've been able to take a wide variety of orders based on our strategic strengths. Now, I would remind you that not included in this headline EUR2.2b is the growing volume of reimbursable and service contracts that we're winning such as the Sasol project in North America announced earlier this week or the RAPID PMC. Now, in the quarter I would estimate that these would probably add a further EUR500m of committed work which is outside our backlog.

We said a quarter ago that we would focus on winning projects where our strengths lie and also in diversifying our risk profile, including into non-lump sum EPC businesses, and the third quarter shows that we're able to do that successfully.

Backlog was EUR19.3b at the quarter-end, again without including those services and reimbursable contracts that I mentioned. And there's good visibility into 2015 which has enabled us to give guidance for that year and growing visibility beyond.

And on slide 13 I'd like to point out one aspect of this. On this slide are the major subsea projects currently ongoing or in backlog. Now, each of these projects has significant offshore phases in 2016 and as you get to the bottom of the list also offshore phases out into 2017. We've stressed to you the importance of delivering a good profit in subsea and having anchor projects for our key vessels. And the projects listed on this page are the building blocks already in place for these later years. And with that I'll turn back to Thierry.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Julian. Now turning to slide 15, I'd like to highlight some of Technip's positions in current environment which is going to help us or enable us to selectively bid and win the right projects with the appropriate risk/reward profile in the markets as they are today.

So first of all, we're going to continue to be involved at an early stage with our clients via Genesis and Stone and Webster process technologies, to address our client needs for optimized cost and schedule-driven projects. We will continue to focus on differentiating ourselves with technology-driven projects. And we will continue to develop the new revenue stream such as project management consistency. And of course we believe that our geographical footprint is the right one and positions Technip very well for this phase.

So I'll go into more details on each of these points now. I start with an example of a project which is cost- and schedule-driven where we -- we were involved at the very early stage of project and worked hand-in-hand with the client to -- along the project life. So early involvement here helps us understand our client challenge, notably cost and schedule. and find the most appropriate or fit-for=purpose solution in a given environment.

So the Juniper project is a good example. BP engaged with Technip through Genesis in a very initial discussion in May of 2013. So you can see that this is not a recent process of looking for cost optimization, so May 2013. And then we transitioned seamlessly to the EPCI contract. So this single project actually combines expertise from two business segments, subsea and offshore platform. And of course in addition we offer the solution that is maximizing local content with the platform fabrication in Trinidad. In fact, the Juniper offshore phase will actually start in the second half of 2016, coming back to what Julian was saying, providing good visibility in utilization of our vessels in the Gulf of Mexico, Trinidad area.

So on slide 17 I want to highlight the type of opportunity both upstream and downstream for Technip's high-end technology offering particularly in North America. This is what helps us win projects such as what you've seen recently, this engineering, procurement and construction management for the Sasol ethane cracker in Louisiana which has been won in a joint venture with Fluor. So that's a recent award where again we are positioned at the very early stages with the client thanks to the technology.

Same thing with the Ascent contract which is this one at an early stage for Braskem where we are supplying at this stage a proprietary ethylene technology for an ethane cracker in West Virginia, and this is thanks to technology as well and experience in LNG that we've been able to position ourselves potentially for future award in upstream LN., projects such as BG Trunkline where we are finishing the FEED and in downstream refining and petrochemicals. And we have, as you can see several studies that are ongoing as we speak for various potential investment downstream, about 15 to 20 studies that we are currently doing in our process technology group.

So on slide 18 I want to turn to a new stream of revenue which is project management consistency. This is a growth area for Technip. We started developing that business about three years ago. And we actually accelerated this business thanks to the broadened capabilities of Stone and Webster Process Technologies when we acquired them two years ago. And of course thanks to the expertise and the resources that we have worldwide and which allows us to focus on Asia, Middle East and African markets.

So since we started this activity we have had quite a lot of success with recent projects in Kuwait for KOC, in Abu Dhabi for Zakum Oil and in the Karbala refinery in Iraq. But we also do PMCs sometimes as follow-on on FEEDs, such as what we are doing with the RAPID refinery and petrochemical facility in Malaysia. So this is a very good example where we started with the FEED and then brought our experience in managing large project scale -- large-scale projects for our clients. And here we are involved in the PMC.

So this project, for example, is on a reimbursable basis and is part of the projects that will be adding to our order intake over time. And with the right visibility and probably we're going to be active for the next five to six years in a project like that. So we think that this PMC business is a growth driver for Technip. And to date we have about around $1b worth of projects and other new potential from PMC won so far and to be executed around -- over the next five years.

Moving to slide 19 I'd like to zoom a little bit on Brazil and the potential for flexible pipes. Because I know there are lots of questions about Brazil, where is Petrobras going and so forth. And as you know, we opened this year our second flexible pipe manufacturing plant in Acu where we fabricate actually the world's most sophisticated flexible pipes for a harsh environment in the pre-salt field developments.

And on this chart you can actually see the growing orders of FPSOs that will be obviously tied up to different fields through either a flexible or rigid pipe between now and 2020. So, three FPSOs have already been installed on the fields which are Lula, Lula Nordeste and Saphinhoa. Three FPSOs for which SURF packages are already awarded, for Saphinhoa Norte, two which -- and two FPSOs for which we have 100% flexible pipe solutions, which are Iracema Sul and Iracema Norte fields.

So the momentum is growing there and on top of this, we have a total of 20 additional FPSOs which are yet to be installed by 2020. 17 of them have already been contracted. So which means the momentum is growing and these deliveries are scheduled and therefore the delivery of the pipes to --whether they're going to be flexible or rigid, but a large proportion are flexible obviously. And this delivery will have to happen over the next five to six years.

So, overall as far as Technip is concerned we can see that the Petrobras CapEx plan is a very positive trend for Technip. They're investing in the pre-salt area and that gives us again very good visibility for our business there.

Now, looking further ahead, although there are a few reasons to remain cautious as we highlighted in July, and you know we have lower oil price today. But we, however, expect that we're going to be able to strengthen our position in the near future. In fact, going into 2015 we have a solid backlog plus other contracted work, as Julian said, such as reimbursable PMC and other reimbursable work. But also the PLSVs on long-term charters that are going to be very available the next few years, that all provide us with long-term visibility in both of our segments.

So, we continue to be a partner of choice for our clients at a very early stage to help our clients move ahead with cost driven projects. We continue to -- and we will continue to expand our portfolio of technologies. This is a clear differentiator for Technip. And we will also expand our differentiated asset base, for example, we have launched a new investment in our factory in Normandy to upgrade our manufacturing capabilities to provide high-end flexible pipes also from our Normandy factory.

So, we will remain also focused on improving cash flow and returns in the subsea segment while maintaining capital discipline and optimizing our cost base, and providing therefore sustainable and predictable dividends to our shareholders. With that I will turn over for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Fiona Maclean, Merrill Lynch.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Thank you, yes, it's Fiona at Merrill Lynch. I have a question about your backlog and what you do and do not include. I'm just trying to understand mainly in the context of Yamal LNG. I believe you have the lump sum component in your backlog already. But could you maybe clarify your accounting policies around reimbursable projects and how you account for them? And if any of that is in the backlog today? And also if you could give us an indication of what the size is of that total reimbursable scope of Yamal? Thank you very much.

Julian Waldron - *Technip - Group CFO*

Fiona, good morning and thank you for the question. We're, I think, relatively strict on what we include in backlog. Backlog is contracted work. So that is work when it's fully contracted, so it's not letters of intent for example. So that means that, for example, frame agreements are only recognized when the work orders are called off and on reimbursable or services contracts the same applies. When the work orders are called off that's -- if and only then do we put things into backlog.

That means that the delay between a reimbursable work call-off going into backlog and coming out in revenue tends to be quite short. And very often you'll see it go into backlog in a quarter and come out of backlog into revenue in the same quarter. So there's quite a clear but I would say strict policy on what we do and what we don't include.

So, for example, PMC projects, which Thierry mentioned earlier, they're almost all on the basis of call-off on hours over the life of the project. Therefore, there's no backlog up-front. The revenue -- the backlog comes and the revenues comes as those work orders are called off.

For Yamal, there are two principal scopes which are not at this point in lump sum; the logistics and the on-site construction. And I think we indicated earlier on this year that the on-site construction is of the order of EUR3b. And -- or those two packages are of that order and they're not currently as I said in our backlog. The on-site construction is a few years out yet.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Okay, very clear. That was it from me, thank you.

Operator

Guillaume Delaby, Societe Generale.

Guillaume Delaby - *Societe Generale - Analyst*

Yes, good morning. I would like to come back to slide 19. You indicated many times that you expect the Acu plant to break even in H2 2014 or by the end of 2014. Is it still on the agenda?

And second question, should we take the graph you put on slide 19 as I would say a rough proxy about the level of sales you expect from the Acu plant? Or put it another way, do you expect that the Acu plant will -- Acu plant sales will be multiplied by four from now to 2020?

Julian Waldron - *Technip - Group CFO*

Good question, Guillaume, tres bien. On the first question a simple answer, we said that Acu would breakeven over the second half. So not at the end or not by the end of the second half, but it's a little more than positive than that, it's over the last six months. I confirm that's what we expect to do.

Thierry Pilenko - *Technip - Chairman and CEO*

Yes, now, Guillaume, coming back to your question. The purpose of this slide is first and foremost to illustrate the fact that the train has left the station with many, many wagons and that many FPSOs are coming into the market. Now, it is clear that you cannot just extrapolate from this trend a production of flexible pipes because at a certain stage you reach the capacity of the plant even if we are doing of course our best to improve productivity year on year in that plant.

So -- but what it means is that our -- there will be plenty of work for the foreseeable future to keep our plant extremely busy and for Petrobras to look also at possibly having manufacturing outside of Brazil, which would help fill continuously our plants in France and also in Asiaflex. So what this shows is that there would be opportunities for flexible pipes. There will be opportunities for rigid pipes as well because once some of the plants will reach capacity Petrobras will look also at developing some fill with rigid. But do not extrapolate with these numbers to our plant in Acu being multiplied by four in terms of capacity, because at some stage you just reach the maximum capacity of the machines, okay?

Guillaume Delaby - *Societe Generale - Analyst*

Okay, thank you.

Operator

Alex Brooks, Canaccord Genuity.

Alex Brooks - *Canaccord Genuity - Analyst*

Yes, good morning. I have a couple of questions on cash. Firstly, I -- Julian, you highlighted the strong working capital performance in the quarter and it would be useful if you could elaborate a bit on that. And whether the awards that you've secured in the third quarter will have some positive cash characteristics in the fourth over and above the profit?

And secondly, I'm a little bit puzzled as to why the debt has increased in the quarter, given the strong cash flow, that's the gross debt rather than the net debt. And it will be useful to have some indications as to what's going on there.

Julian Waldron - *Technip - Group CFO*

So, on the order intake, some of those orders of course will bring cash flow. There's been no change to -- in our portfolio there's been no change in the way that our customers work with us in terms of funding of projects in fact over the last couple of years. And I know that's been a point of focus for us over that time. But I think we've been consistent over that period saying that we still see advances at normal levels. And I think that's what you see in the way cash flow has come into the Company on those projects.

So, they're normal projects. They'll contribute cash flow in the form of advances, as previous projects, nothing out of the ordinary. You can talk a little bit about mix; generally speaking onshore/offshore projects appear to be a little more frontloaded in cash than subsea. And flexible projects, wherever they are in the world, tend to be rather more production based than project based if you will, and services contracts too. But I don't see anything in the order intake over the last quarter which changes the cash flow profile of the Group.

As far as gross debt is concerned, the things we've done over the last two years have been generally to lengthen the maturity of our debt, to take on private placements where we can. There are one or two specific areas over the last six months that we've worked on. In terms of long-term debt, that is linked to the funding or the local funding for some of our investments in Brazil whereas you know there are -- there is a significant amount of local funding available. So that's part of the gross debt and that's linked to the Acu investment.

And secondly, the commercial paper market in France has been a particularly good area to fund short term and we've tended to use that a little more in the quarter.

So I don't think there's been any change in the policy. It's just a continuation of what we've done over the last two years, to try and source long-term money as cheaply as we can and where we have short term needs again to source as cheaply as we can. And nothing more, nothing less.

Alex Brooks - *Canaccord Genuity - Analyst*

And so we should anticipate the usual fourth quarter inflow? There's no reason why that would be any different given customers' current behavior.

Julian Waldron - *Technip - Group CFO*

What I said in July and I repeated it a little earlier was not that. I think what we expected was that cash at the half year was higher than we expected it to be. And we expected those advances to start rolling in to project progress in the second half of the year. By the end of Q3, actually the cash flow was better than we expected and that's partly because projects are moving forward maybe a little quicker than expected or because cash inflows on new projects were slightly better than expected.

But I still expect, Alex, over the next two or three quarters, a modest, normal, measured outflow of working capital on the backlog as we have it. We had a big spike in quarter four last year and we were probably ending the year with EUR200m, EUR250m more advances than we expected to at the end of last year.

At this point, I don't see why we would have the same spike. It was unusual last year. We were positively surprised. I don't see why we'd have the same spike. So I think you'll see over the next two or three quarters, normal project progress and a modest consumption of working capital as you would expect as those advances get used.

Alex Brooks - *Canaccord Genuity - Analyst*

Okay, that's very kind. Can I just ask one other question which is on the subsea backlog? And again this is about something you said about a year ago, Julian, that the backlog coverage in the new world of more charters in subsea would tend to be higher than it has been previously. But if I look at the top end of your range for 2015 of EUR5.5b of subsea revenue, it looks like you've got a very high proportion of that already covered. Is there anything that -- could you comment on whether that means that that EUR5.5b is maybe a relatively conservative estimate?

Julian Waldron - *Technip - Group CFO*

Alex, I'm conscious that I need to answer this in a measured way. But I think if on the one hand you and others are worried about the potential to take orders on good conditions, then the right position for us to be is very, very well covered for the revenue that we've guided for in 2015. I won't go further than that. We feel we're in a very strong position to continue to maintain our bidding discipline and to deliver our 2015 without needing to stretch.

Now, you know markets are volatile and so on and so forth, but I would tend to look at the backlog coverage for 2015 in that way rather than any other way. I think that's the right way to -- for us to reflect to you our strategy.

Alex Brooks - *Canaccord Genuity - Analyst*

Okay, thank you very much.

Operator

Jean Francois Granjon, Oddo.

THOMSON REUTERS

Jean Francois Granjon - *Oddo - Analyst*

Yes, good morning. I have just two questions please. The first one concerns the margin, the operating margin evolution during the third quarter. You didn't mention on the press release the reason why we see a 20-basis-points drop for the subsea margin and 200-basis-points drop for the onshore business. So could you explain why there is so strong a drop for the onshore and there is a slight decrease for the subsea business? This is my first question.

And the second question regarding the net cash. So you mentioned EUR747m rose at the end of September. What do you -- do you expect for the full year at the end of this year in terms of net cash or net debt? Thank you very much.

Julian Waldron - *Technip - Group CFO*

Thanks for the question. I think in terms of Q3 margins in the two segments, if you'll forgive me, I'd like to just go back to the guidance and just link the margins in quarter three to the guidance. Year to date in onshore/offshore we're at 5.2%. The margin guidance is 5% to 6%. So we're bang in line including in quarter three with what we expected to do full year. And I don't think there's much more to read into a single quarter's margin than that.

In subsea, we indicated in July that the margin in quarter three would be a little below quarter two because we had the maintenance on the Deep Blue in July and August and that's exactly what's happened. If I go back to the very start of the year, we indicated that the margin in subsea would be at least 12% across the full year. It's been 12.2% for the first three quarters.

We indicated for the last nine months that it would be at least 14% and it was 15% in quarter two and 14.3% in quarter three. So we're trending to that. And we said that each of the last three quarters would lie between 13% and 15%. Quarter two and quarter three have done that and quarter four we expect to do so as well. So again, I think the quarterly margin progression in subsea is bang in line with what we expected it to be at the beginning of the year.

The only slight change we've made to guidance in subsea is to increase modestly the revenue. So other than that I think there really isn't a lot of underlying or unusual moving parts in either segment. They're very much, I think, this quarter conforming to what we expected it to do and to what we've said we'll do for the full year.

As far as net cash is concerned for the end of the year, we do expect a modest outflow of working capital as I mentioned in answer to the previous question, very much in line with the -- with the progress on projects again as I mentioned a little bit earlier.

We still expect to spend around about EUR400m of CapEx during the course of the year. By the end of Q3 cumulative year to date we have spent EUR260m. So I would expect cash -- taking into account those two things, offset by EBITDA I would expect cash at the end of the year to fall modestly from where it is at the end of Q3. That would be in line again with what we said in July.

We've been slightly positively surprised at the end of Q3, but I still expect the same trends for the back end of the year, a slight drop from where we are today.

Jean Francois Granjon - *Oddo - Analyst*

Okay, thank you. And perhaps the last question to confirm the guidance. You mentioned in the press release some risk to have some lower margin for instance, offshore taking into Yamal, geopolitical risks, etc. Can you qualify these risks today? Do you expect some probably downgrade for the guidance onshore/offshore by 100 basis points? So could you give us some color about that? Thank you.

Julian Waldron - *Technip - Group CFO*

Thank you for the questions. I don't think there's any more color for us to give. The risks were there in July. They remain there today. There is nothing new that has happened over the quarter that would lead us to make any additional comment. It's not better, it's not worse. There really is no change.

Jean Francois Granjon - *Oddo - Analyst*

Okay, thank you very much.

Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - *HSBC - Analyst*

Yes, good morning gentlemen. Two questions please unrelated. The first one is around subsea project awards for next year. It seems a number of the subsea equipment players believe that we'll see growth in the volume of awards to market next year. That's based I think in part on a number of projects that are slipping from this year into next. But I think there's also a belief that industry costs have come down, project economics have also improved, notwithstanding a lower oil price. So do you share that enthusiasm? That's the first question.

The second question, just really looking for an update on some of the themes that you discussed Q2 around customer behavior. So has the situation worsened? Perhaps you can make a comment on current trends around terms and conditions negotiations for new contracts, but also the interaction with clients during and towards the end of a contract's life.

Thierry Pilenko - *Technip - Chairman and CEO*

Okay, thank you for this question, Phil. I'll start with the subsea awards from I would say equipment manufacturers and numbers of [trees] and so forth.

You said, are you sharing the enthusiasm? Maybe enthusiasm is a word which would be little bit too strong. But what we continue to see is some good opportunities in the market where Technip can position itself. And those opportunities are generally the ones that are either relatively complex projects or projects that require technology whether it is pipe in pipe or heated pipe in pipe or flexible pipes and so forth.

So -- but I probably don't share the same level of enthusiasm. But what's important for us is to have the ability and the progress that we discussed about just a few minutes ago, so that's important and be able to really focus on the right projects with the right terms and conditions.

Your second question, customer behavior, have we seen any change in customer behavior. I would say there is nothing significantly different from what we said in July and what we highlighted in July. So we do have customers who are very contractual, but we also do see customers that are very engaged with us to try to make the projects work in a much more cost constrained environment.

And I think what we did with Juniper with BP is a very good example of that collaborative approach. Early stage definition of the architecture, the same definition of the solution which involves in that case a mix of subsea systems as well as a platform. And ultimately a project that has been fully designed by Technip and that will be fully implemented by Technip. And a project which is a gas project in that case, so in a very challenging cost environment because it's gas. A gas project that we have been able to make happen because now the system that was proposed is viable.

And I think we're going to continue to see that over the next few quarters probably. Clients being more demanding on the contractual side but also clients being more open to looking for new projects or new ideas that help bring fit for purpose solutions. So it's a little bit of a paradox, but this is really what's happening in the market at the moment.

Phillip Lindsay - *HSBC - Analyst*

Okay, that's helpful. Thank you.

Operator

Jean Luc Romain, CM-CICC

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

Good morning. I have two questions around PMC and reimbursable contract.

Operator

I'm sorry, sir. The sound is a little bit too low. Can you speak -- perfect, thank you.

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

On the PMC and reimbursable contracts, Julian mentioned around EUR500m of committed work and Thierry mentioned an estimated EUR1b of revenue potential. How does it work together? Is that EUR500m plus EUR1b or is the EUR500m including in the EUR1b? That's my first question.

My second question is about the RAPID contract in Malaysia. I understand you have a PMC contract there. Could you be a candidate -- bidding also for EPC or EPC packages?

Julian Waldron - *Technip - Group CFO*

So in reference to the first question, so in quarter three, if you look at the order intake of EUR2.2b, not included in that are the service contracts which are PMC as well as other contracts. And we estimate that the revenue attached to those projects not in backlog is around EUR500m.

For PMC as a business line, over the last 18 or so months, the value of the contracts that we've taken in terms of expected revenue is about EUR1b and that's the number that Thierry mentioned. So that's how you look at those two different numbers. One, the EUR500m is the expected value in the quarter from a variety of services contracts including PMC. The EUR1b is the estimated value of revenue from the PMC contract book over the last few quarters. Thierry.

Thierry Pilenko - *Technip - Chairman and CEO*

Moving to RAPID, so RAPID is a refinery and petrochemical complex in Malaysia. The total investment is probably in the range of $18 to $20b -- $20m. We did the FEED as I said and we won the PMC which is a very significant PMC over at least six years, five to six years.

As the PMC contractor we can also be working on some EPC aspects whether reimbursable or not or other elements. And we have actually identified potential areas where Technip could be adding value in the engineering, procurement and construction management. So potentially there could be more to come for 2015.

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

Okay.

Operator

James Evans, Exane BNP Paribas.

James Evans - *Exane BNP Paribas - Analyst*

Good morning. Thanks for taking my questions. Firstly, one for Julian. Obviously a very strong SG&A performance and I think it's the lowest relative to revenues in over five years. You mentioned some incremental savings still to come through. So I wondered if you could talk a little bit about what actions you're looking to take. And could you in any way quantify the further benefit that we could see over the next years in any shape or form?

And secondly, probably one more for Thierry. You mentioned at the Q2 some irrational behavior from some of your competitors. Have you seen any further examples? And just to double check that you have not yet seen any deterioration in your backlog given the security you have? Thanks.

Julian Waldron - *Technip - Group CFO*

Thank you. On the first one you'll forgive me, I'm not going to be specific either on where -- on exactly where we're going to look and to quantify it. I can give you if I may, a couple of examples of things that we have and continue to look at. The first is using the very high level of backlog that we have and the good coverage we have for 2015. And then what I mentioned earlier when you look at the vessel scheduling, looking further out on both sides of the business to be selective in where we bid.

And there's a direct cost for bidding and looking to bring, to continue to cap and occasionally bring down the cost of tendering on projects is something that the operational team in the Group worldwide is very focused on. And you can see if you go back and look in the annual reports you can see the volume of money we spend on (inaudible) and tendering each year and the amount it's gone up. We will continue to focus on that as a source of saving.

Secondly, as we simplify our business, it throws off opportunities for taking out G&A in particular. So for example, we are looking and discussing the sale of our diving assets, some of the assets linked to our diving business in the United States. As that happens we will be able probably to optimize and improve and reduce the costs of servicing our North American business.

Our North American business has continued to grow over the last two or three years. It's grown both by acquisition with Global, then by acquisition with PT. The business is growing organically. We're in the process of rationalizing the office space in Houston and bringing everyone back into the same office. There's direct cost benefits for that. We think it's likely that there will be better utilization of the front office as well.

So, not all of our costs actions are focused on the OpEx. Increasingly, I think we will also look to improve the productivity and the cost effectiveness above the gross margin line too.

We didn't give a prediction for how much we'd save earlier on in the year. We just said that we were determined to make an impact. I hope that you've started to see that impact in the numbers that we've reported today. I think we'll carry on quietly working and hope to demonstrate the impact of that in the profitability over the next couple of years.

Thierry Pilenko - *Technip - Chairman and CEO*

And coming to your question about the competition behavior and what we said in Q2, I don't think I would change anything to what I said in Q2 in terms of highlighting the risk of irrational behavior. However, it's a bit too soon to tell because you need to understand that the projects that are being awarded now are probably -- were probably bid, for some of them six months, a year ago, and so forth. So it's -- I don't have clear evidence today to say that there is this project or that project that is going to be where I have had evidence of poor discipline in terms of pricing.

However, I think what's very important is to understand that at Technip, we have very good visibility. And we focus on projects where we can have a differentiator, particularly through technology, through know-how or complexity of certain projects. And I think this is really where we're going focus our efforts over the next few months. We don't have to get into necessarily into those areas where there could be more pressure on pricing because we have a good coverage and we have strength in our ability to focus on projects that are highly technical.

James Evans - *Exane BNP Paribas - Analyst*

Right, thank you.

Operator

Christyan Malek, Nomura.

Christyan Malek - *Nomura - Analyst*

Thank you. Good morning, gentlemen. Just two questions please. First, since you laid out your targets at the back end of last year, the oil price is down 20% year to date, customers have accelerated CapEx cuts. So with that backdrop how confident are you now compared to December last year in your subsea margin target for 2015 of 15% to 17%? And are you comfortable with consensus expectations towards the upper end of the range? I'll come back for the second question.

Julian Waldron - *Technip - Group CFO*

Christyan, I'm not going to comment on consensus. I can only comment on what we say we're going to do. And this morning I hope we've been very clear about what we expect to do in subsea next year. When you go into any quarter you look at your backlog, you look at what's in it, you look at the coverage, you analyze it and you conclude. And we concluded this morning that our 2015 guidance for subsea put in place in December last year there is no reason to change it.

Christyan Malek - *Nomura - Analyst*

So it's a fairly large range of 200 basis points. So can you -- is that range narrowed or is there any way you can put color in terms of where are we in that spectrum?

Julian Waldron - *Technip - Group CFO*

I think, Christyan, over the last several years, two points has been the traditional way in which we looked at the subsea business. I don't think it's different from what we've on average done over the last six or seven or eight years. I don't think there's anything unusual on that.

Christyan Malek - *Nomura - Analyst*

Okay. So my second question is regarding execution. Clearly on the critical path of delivering these margins is the fact that you deliver these projects profitably as you've highlighted. Particularly on Kaombo, just two questions around that. First, who owns local content on Kaombo and how much of it do you have to outsource to some of your competitors like Subsea 7 on some of these yards?

And the second question is how's the JV going with Heerama given Heerama are doing some of the complex end of the work? And if things go wrong, who takes the financial blame on that project?

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. Christyan, you know we don't comment very specifically on project execution. But what I can tell you is that most of the local content is actually going to be done internally. And that's because of the combination of Technip's capabilities in Angola and Heerama's capability in Angola.

Now the Heerema alliance on this project, Technip-Hereema alliance calls for a project where we are in full joint venture 45%/55%. And we are together in that joint venture, we take the risk together. The alliance with Hereema is actually very, very good and working very well. And we should be in a very good position to deliver a profitable project as planned.

Christyan Malek - *Nomura - Analyst*

Thank you very much.

Thierry Pilenko - *Technip - Chairman and CEO*

It's a consortium. Sorry, it's not a joint venture, it's a consortium.

Operator

Haley Silverman, Barclays.

Haley Silverman - *Barclays - Analyst*

Hi all. Yes, thank you for taking my question. Haley here from Barclays. Just quickly on the on/offshore business. Do you think given your current backlog and the visibility that you have that the business will ever get back to the 6% to 7% range again? And if so when?

Julian Waldron - *Technip - Group CFO*

That's a very good question. The when is not something I think we've answered and probably I think this is the wrong time to start. But we've delivered 6% to 7% out of this portfolio beforehand. So there is no reason to believe that we cannot do it again.

It will remain the way in which we look to drive our business. And just for the avoidance of doubt because I think occasionally people do doubt it, Yamal is one of the things that will support us getting back. The mix of reimbursable and services contract in our business will also help us get back.

So I think we recognize where we are today. We recognize that the reasons are diverse including timing. But that will not stop us looking to get to where we've been for quite a good period of time over the last few years which is 6% to 7%.

Haley Silverman - *Barclays - Analyst*

Okay, thank you. And just one other quick question from me on the recent awards that you've been announcing, quite a few now which is very good and thank you very much for those. But what about the bidding strategy there? How are you winning so much? Is it a price thing? If you could just give us a little bit of color around how you're able to take market share that would be very helpful. Thanks very much.

Thierry Pilenko - *Technip - Chairman and CEO*

Well, I think the projects that we have taken as examples are -- in our presentation are actually showing generally I would say two main elements. Some of the projects are coming from the real customer intimacy at a very early stage, doing the FEED, going sometimes, from time to time from conceptual to FEED to EPC and therefore having a very good understanding on the project risk and of the project opportunities, very much in line with what the clients want to do.

The second element is we've been focusing on projects that require a very strong project management capability and technology. If you look at the example of Sasol, for example, that we just had the award this week, this is a project on which we've been working for two years, talking about technology, talking about how to execute the project in the best possible manner, identifying the risk and so forth.

So that's the type of project where we move from technology to concept, execution plan and so forth. So this has been something that was supported by the Stone & Webster alliance -- sorry, not alliance, Stone & Webster acquisition that we made a couple of years ago, which has strengthened our position in North America.

If I look at Kaombo or Bangka, also two subsea projects, those projects were won recently because one was a combination of -- in the case of Kaombo, Hereema and Technip plus everything that we bring to the market including flexible pipes and (inaudible) and so forth. And in the case of Bangka, we are fully vertically integrated which is again something that was recognized by the market as a differentiator.

I think in the current market, there are still a lot of opportunities that require the combination of technology, project management, installation capabilities with very clearly differentiated assets and national contact. And when you can bring those four together, you are in a strong competitive situation.

So it's not just about the price. It's about the capability to deliver something which is sometimes more complex, but sometimes that brings the right level of cost and efficiency to the customer.

Haley Silverman - *Barclays - Analyst*

Great, thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Let's be clear. We are not getting after the market share. We don't give market share objectives to our team. We give profitability objectives.

Haley Silverman - *Barclays - Analyst*

Good, thank you. And just one quick one. You mentioned the Yamal reimbursable content, the onsite construction was 3b. Was that euros or dollars?

Julian Waldron - *Technip - Group CFO*

So that's for -- that covers a couple of things. It includes the logistics part of the project and the construction. And that's around [EUR3b].

Haley Silverman - *Barclays - Analyst*

That's it from me. Thank you very much.

Julian Waldron - *Technip - Group CFO*

Thank you.

Operator

Mukhtar Garadaghi, Citi.

Mukhtar Garadaghi - *Citigroup - Analyst*

Good morning, gentlemen. Two very quick ones if I may. Just on the challenges that the industry is going through now do you think that creates more scope for consolidation? And what's Technip's view on that?

And then second just a very quick one on Yamal. What's your exposure to the FX change there? And how much of those items are going to be procured in dollars and do you see a big impact? Thank you very much.

Thierry Pilenko - *Technip - Chairman and CEO*

The question on consolidation is always coming whether it's in an upcycle, down-cycle, mid-cycles or whatever. I think at Technip, we will be focusing on our projects but we will also be looking. Every time there's an opportunity for Technip to broaden its portfolio of technology and services I think it will be a great opportunity.

Because I think what's happening today, if you look at how the market in oil field services and the environment is structured, the companies that have been capable of building a portfolio across the board and in the case of Technip from subsea to platforms to onshore and with a lot of technology support, those companies are much stronger than the ones that are pure players.

And therefore for Technip it is I believe more important to grow the portfolio rather than just think in terms of pure consolidation in the traditional way.

For Yamal, Julian.

Julian Waldron - *Technip - Group CFO*

For Yamal -- thanks for the question. I'm not going to -- again it's not our policy to comment on specific things for a project. But the policy that we have across our projects is where we have a mismatch between the currency of inflow from the contract and the currency of expense, so transaction exposure, we hedge that on the day that exposure comes into force, which is generally the beginning of the contract.

So for the expense on Yamal or any other project, we have currency of inflow and currency of outflow which are mismatched, we hedge and therefore we don't take currency risk.

Mukhtar Garadaghi - *Citigroup - Analyst*

Okay, thank you very much.

Operator

There are no further questions, sir.

Thierry Pilenko - *Technip - Chairman and CEO*

Well, thank you very much for attending this call. And have a good day.

Kimberley Stewart - *Technip - Head of Investor Relations*

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 are invited to contact the Investor Relations team should you have any questions or require additional information. Once again thank you for your participation and please enjoy the rest of your day.

Operator

Thank you for your participation in today's results conference call. The replay will also be available by dialing for France and Continental Europe 33-172001500. For UK 44-20336799460 or for USA 1-877-642-3018 using the confirmation code 289672#. The replay will be available for two weeks.

(Thank you and goodbye. You may now disconnect.