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TEC.PA - Technip to Comment on Company's Press Release Regarding Restructuring Plan Call

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PRESENTATION

Thierry Pilenko - *Technip SA - Chairman & CEO*

Good evening, and thank you for joining us at very short notice this evening. I'm Thierry Pilenko, and with me are Julian Waldron, our CFO, and our IR team.

We announced one hour ago that Technip anticipates an even more challenging business environment and that, consequently, we are proactively launching a restructuring plan and accelerating our cost reductions. I believe this plan will reinforce the Group through and beyond the prolonged and harsh downturn of the oil and gas industry.

So we will go through the main points of the plan for about 15 minutes with Julian, and then we will open for questions for about 35, 40 minutes.

I will now turn to Kimberly to go over the conference call rules. Kimberly?

Kimberly Stewart - *Technip SA - VP, IR*

Thank you, Thierry. I would like to remind participants that statements made during the conference call which are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers and listeners are strongly encouraged to refer to the disclaimers, which are an integral part of today's slide presentation which you may find on our website, along with the press release and, later today, the audio replay and a transcript of today's call at technip.com.

I now turn you over to Thierry who will go over this announcement in more detail.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Kimberly. Moving to slide 3 of our presentation, I'll start with a summary of what we are announcing today. So we are announcing a restructuring and reorganization of our business to drive cost savings.

The plan will deliver EUR830 million of savings in total, in which EUR700 million should already be in 2016. The plan involves various elements, including reduction in our global workforce of around 6,000 and a reduction of our footprint and asset base.

There is a one-off charge of EUR650 million. The one-off charge includes all the direct and indirect consequences of the plan, such as restructuring, asset writedowns and impairments, lease overhangs, additional amounts on ongoing projects to reflect the potential impact caused by the reorganization.

We have also cleaned up the remaining customer-related issues in our onshore/offshore projects to remove the risk that has been hanging over that segment for the last few quarters, and to drive a substantially improved performance already in the second half of the year, as we said we would.

I would like to go over some of the industry background before I hand you over to Julian. So turning to slide 4, I will not go into the details of the market environment in general, but since July of last year, we have felt a change in market conditions in a number of respects and we have discussed this many times in our conference call and in our meetings.

It has particularly impacted our onshore/offshore business whose performance in Q1 was, as we said at the time, unsatisfactory. I believe we were ahead of the curve in 2014 in kicking off our cost reduction measures and, as we said earlier this year, we've been working on the levers to improve our cost competitiveness.

Given what we have seen in the last few weeks, and despite having a high backlog of projects, I believe this is the right time to kick off those measures, and substantial additional ones, into actions to reinforce the Company in the current downturn.

So on slide 5, what has changed in the last few weeks? Well, I believe the lower level of new project awards the industry is seeing at the moment is going to be more long lasting than many in the industry think, and let me explain why I think that.

First, many clients are now focused more on buying reserve through M&A rather than developing reserves. We are seeing, in addition, the consequences of changes on client management teams and, for example, slowing down decision making. We've seen a lot of changes in the industry over the past year or so.

At the same time, this is making the negotiation on changes still very protracted but, in some cases, these negotiations just stop, and in some cases, become even legal occasionally. You can see this in Algeria, for example, where our involvement in the refinery project which was well advanced has now finished at the client's request.

Last, when you analyze client new business plans, their strategic priorities become clearer and regional strength and weaknesses are accentuated. For example, the Petrobras business plan, which has just been published last week, confirms the investment plans for the pre-salt which is, obviously, good for Technip, but also confirms that the onshore/offshore business in Brazil will be very slow for the foreseeable future.

Now, concerning project cost, I also see clients convinced that, notwithstanding the cost reduction they have already obtained across the supply chain, they can achieve more by maintaining pressure and delaying projects.

One result of all of this has been irrational bidding in some cases. Even our clients have recognized that some bidding is irrational, and we know a number of cases where our clients did not accept the lowest bid, for example.

Project cost reengineering is a concept that clients have welcomed, particularly following our Forsys Subsea announcement. They are engaged, but the process will take time.

So how does Technip act now? We started the year determined to continue to cut our cost. What we see in the markets today show that we need to accelerate and restructure by going as deep and as wide as possible.

In this prolonged and harsh downturn, the industry is convinced there needs to be a step change, and I intend Technip to be ahead of the curve. I am convinced that if we do this decisively and efficiently, we will be able to invest and prosper even in these difficult markets, and grow in those areas where we see opportunities of profitable business fitting with our strengths.

All in all, I believe the plan we launch today, coupled with our high backlog and the subsea business that is performing well this year, in fact better than our expectations, show the resilience of Technip including in the current downturn.

I will now turn over to Julian to go through more details of the plan.

Julian Waldron - *Technip SA - CFO*

Thierry, thank you very much, and good evening and good morning to everybody. So I'll turn to slide 6 and we'll talk about the cost reduction plan and the savings.

As you know, we started to reduce our costs and, most notably, our fleet last year and we said at the start of this year that we'd be working further on cost reduction, with a particular focus above gross margin level, so both direct and indirect costs. Today's plan, when implemented in full, would take out over 20% of that direct and indirect cost base.

In addition, as Thierry said, we noted the underperformance of onshore/offshore and that that was unsatisfactory at the end of Q1 and we're taking steps, as we said we would, to improve its performance, including through cost cutting. And its management team, led by Nello Uccelletti who took over at the start of the year, has been working to build that plan to ensure a good level of profitability, going forward.

So what do we target? First, we target through the plan EUR830 million of savings compared to that 2014 cost base. We target delivering EUR700 million of that already in 2016, with the balance in 2017. As I mentioned, we have taken into account our direct and indirect cost base which was around EUR4 billion in 2014.

So for the avoidance of doubt, our plan excludes the potential cost savings that we might be able to get on procurement on projects, procurement for our manufacturing plants and project subcontracts, either for construction or logistics on projects, for example.

The main lines of cost across which we expect to reduce include our contractor base, this was around 15% of our headcount at the end of 2014; in particular our footprint in some geographic areas where we will cut significantly, occasionally exit and where there will, therefore, be savings on real estate, direct and indirect manpower, admin costs and so forth; non-project purchasing; IT; and then additional measures on our assets including vessels and yards, to which I will come back.

So on slide 7 I'd like to talk about onshore/offshore. Our actions are stronger in onshore/offshore than subsea because, as we've noted, we intend to make a sharp improvement in the performance of this activity from the second half onwards. And we'll take the following specific steps as part of the plan.

Significantly reduce our activity in those countries where the prospect of profitable business is low for the medium term and we'll reduce our footprint here and, in some cases, shut the local offices. We'll also continue as we did in 2015 to dispose of non-core activities.

Without being too specific, the main areas targeted include areas of Latin America including Brazil, some peripheral countries in Europe and Asia. And the costs we will take include the restructuring costs for this, some asset writedowns, lease overhangs and also a prudent view of the ongoing projects in those countries where we're undertaking restructuring.

In addition, as Thierry mentioned, we've also been able to finalize our analysis of those projects where we have disputes on changes and variations.

Over the last couple of months, there have been a number of developments, including the near finalization or finalization of our scope on those projects, agreements with some of the clients, and clarification or confirmation with others disagreement will continue and that, in some cases, that disagreement will only be resolved in arbitration or a similar process.

So we're able to put these issues behind us and present the visibility in expected profitability from onshore/offshore in the second half of the year.

What does that look like? Well, after a low fourth quarter last year and a clearly unsatisfactory quarter 1 OIFRA of EUR23 million, we expect to show on an underlying basis, excluding the one offs, a stronger Q2, around EUR50 million, and then a more satisfactory run rate in the second half.

I indicated in the Q1 conference call that onshore/offshore has clearly, in the past, been capable of delivering between EUR70 million to EUR80 million per quarter and this is the sort of performance today's plan drives for H2 2015.

I'll turn to subsea on slide 8. The business is performing better than we expected at the start of the year, yet we still targeted substantial savings across the activities here. Our actions are focused on those markets which are slowest at the moment, and are intended to enable us to remain the most differentiated provider in these markets.

As always in a downturn, the markets which suffer most and fastest are those where projects are maybe smaller and can most easily be cut, for example, the North Sea.

We'll also take further actions on the fleet. Our original plan this year having reduced from 37 down to 27 vessels in 2013/2014 with a reduction to 25 vessels at the end of this year. We'll now go a bit further and retire one owned vessel and let go a leased vessel, so as a result in early 2016 the fleet will be 23 vessels and as you know, we would still have an additional three vessels on lease.

On slide 9, I'd like to go through the details of the one-off charges. The one-off charge has both a cash and a non-cash element. The cash element is estimated to be around 60% of the total and 40% is, therefore, non-cash cost.

The charge covers all of the different aspects of our plan, as announced earlier, the restructuring, the severance, the asset writedowns, the impairments, the other indirect costs of the restructuring, including where our restructuring could have an impact on our footprint in countries, and the appropriate amounts for the onshore/offshore projects to which I referred earlier.

In terms of the timing of the charge, the majority, so around 80% to 90% I would expect to take in the second quarter. As you can understand, according to IFRS some severance will fall into later periods.

The cash flow will be quite smooth in terms of how it's spread out. We expect it to be spread out across the coming 18 months, and so the impact for when you balance that with the savings that we expect will be quite limited.

With this in mind, I would make no change to our expectations that we set out at the beginning of the year, either for cash or for working capital.

We started 2014 with more cash than we expected to have and we expected to consume some of that excess and there's no change to that view. And we expect to have a strong liquid balance sheet at the end of the quarter with adjusted net cash probably in excess of EUR1.2 billion.

Financial performance and outlook on slide 10. As I mentioned earlier, we see our onshore/offshore business for the second quarter coming in on an underlying basis with operating income from recurring activities at around EUR50 million.

Our subsea segment is performing better than we expected at the start of the year. In Q2, we expect adjusted operating income from recurring activities above EUR240 million.

For the full year 2015, we see our revenue expectations unchanged at this point, certainly trending towards the upper end of the range, I would say. For subsea, that gives a revenue between EUR5.2 billion and EUR5.5 billion and the adjusted operating income, there we revised that up, and I confirm the outperformance that we noted earlier in the year, so our adjusted operating income from recurring activities at around EUR840 million.

For onshore/offshore, revenue around EUR6 billion and an adjusted underlying operating income from recurring activities between EUR210 million and EUR230 million. That implies an H2 underlying performance between EUR140 million and EUR160 million for onshore/offshore.

It's too early to give guidance for 2016 but as you'll appreciate, taking EUR830 million over 2016 and 2017 with most of that in 2016, these actions are intended to provide good underpinning to the Group's business when combined with the backlog that we have.

And with that, I'll hand back to Thierry.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Julian. Moving to slide 11 and to conclude before we open the call for questions, I believe our plan today reinforces Technip through and beyond the downturn. It is designed to achieve a major reduction in our direct and indirect cost base and to address the unsatisfactory performance in onshore/offshore.

It positions Technip to maintain its strategy, permits our investment in technology and in markets where we know we can grow. In short, it should allow us to seize the opportunities that are evident in any market disruption. And it's clear to me that there are opportunities in the way we work with clients. Let me share with you why I'm confident in that respect.

First, we see our clients very focused on making their strategic projects move forward. You can see this in markets such as onshore and subsea East Africa, subsea Brazil, downstream North America and floating LNG. This is a good example: our involvement in the Browse project which we announced on Friday is an example of the power of Technip's business model, both for onshore/offshore and subsea, as we have a strong technology position with track record and a first mover advantage on FLNG.

We were involved in previous phases; we have now taken with our partner, SHI, the FEED contract, and the FEED will deliver to our client an open and transparent estimate of the project costs and will enable us to optimize and meet our customer's target.

Accordingly, we also signed a framework for the PC contracts for the three FLNG units on Browse, although of course these are contingent upon full FID in due course. So technologic strength across the Group, early involvement, open and transparent estimation with our client, then risk sharing.

This is a model that has served both Technip and our clients well on projects. It's a model for how we see the opportunities in the coming years. To this, we can add a clear and growing ability to take costs structurally out of our clients' projects, which is not something that we have discussed today in this plan.

The response, for example, to the Forsys JV and the alliances with FMC Technologies in subsea have been excellent, and we are seeing a very wide range of discussions with clients on how to get involved to make their projects viable.

While the downturn is, indeed, prolonged and harsh, Technip has the ability to adjust its cost base, as evidenced by what we did last year and by the size of the savings that we announced today. We have a strong balance sheet and we'll continue to invest in technology and in a broad range of services.

We have a long and profitable backlog of both subsea and onshore/offshore projects, and we will add value to our clients as they look to make the right investments in a lower price and, therefore, in a lower cost environment.

So even in these tough times, I believe Technip has the building blocks, notably after today's announcement, to continue to create value. And we will now hand over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jean-Luc Romain, [ESN/CM-CIC] Securities.

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

My question relates to your involvement in Brazil onshore/offshore. In the past few years, this has not been very much talked about. You have emphasized, [rightly], your capacities and capabilities in flexible manufacturing and [your plant] in Brazil. Could you give us an idea of what you have in onshore/offshore in Brazil?

Thierry Pilenko - *Technip SA - Chairman & CEO*

I am not sure I understood the question. Can you tell us -- ?

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

Could you give us an idea of how big onshore/offshore business of Technip is in Brazil?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Yes. Well, the onshore/offshore business in Brazil at the moment is basically a couple of projects which are well advanced. One is a refinery project, which is called [APBC], and the other one is an FPSO project, which is called P76, plus some smaller engineering projects in the onshore/offshore business.

I would say, in terms of revenue, it probably represents, I don't know, maybe around 20% or less of our total revenue in Brazil, and what we have seen over the past couple of years is actually there were fewer and fewer opportunities in Brazil.

In fact, if you look at the Petrobras strategic plan, they have made tough choices as well and they have decided to focus their future investments particularly in pre-salt and, therefore, are not going to invest any significant amounts in downstream. So the opportunities for us in Brazil are in subsea and they are very strong. We have good visibility in our plants in Brazil and we continue to see very good momentum and production is ramping up from pre-salt.

So I would say, in terms of the strategic investment we have made in Brazil, whether it is in the manufacturing capabilities, the logistics or the PLSVs, I think we actually are going to be addressing the sweet spot in this market. And we forecast that we will be slowing down dramatically the activities in onshore/offshore in Brazil.

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

Thank you.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays - Analyst*

A couple of things, if I may? Firstly just a clarification; could you just help on that EUR4 billion indirect and direct costs? I'm looking through your Annual Report and I see lots of different numbers, but I'm struggling to piece together EUR4 billion. So can you break it down into employee expenses, etc.?

And, secondly, I realize you're doing the right thing here, but at this point in time I can't tell you whether it's going to be a good thing or a bad thing from an investment viewpoint. I know last quarter, Julian, I asked about run rate of margin as we were leaving this year and you very kindly said EUR70 million to EUR80 million in the onshore and that's probably a good guide going into next year.

If I take that through into next year, I add some former cost savings, it says either subsea's losing money or onshore/offshore's losing money, either we're all completely wrong in consensus for next year. Quite frankly, I don't have a clue where we are. So I know you can't give guidance from 2016, but without any help, I don't think investors can do anything here.

Julian Waldron - *Technip SA - CFO*

I'll try and take the first one. The most important number in the EUR4 billion is approximately EUR2.3 billion of employee expenses. Now, those are expenses for our permanent employees, which at the end of 2014 was approximately 32,000.

In addition to that, the bridge between that and the EUR4 billion, and I can find you more details, but it is essentially the real estate for those -- the real estate and associated costs for those engineers in the various places they are and plus, most important in terms of running cost, if you will, is the temporary and contracted employees that we have pretty much across the Group.

Okay? And those two things get you a significant way towards the EUR4 billion -- sorry, those three things: permanent employees, temporary and contracted, and then the real estate that houses them, that gets you most of the way towards that EUR4 billion.

Mick Pickup - *Barclays - Analyst*

Okay, thank you.

Julian Waldron - *Technip SA - CFO*

I'll let Thierry comment a little more on the 2016 outlook, but I think just a couple of points from my point of view, looking at what we're doing today. As you say, Mick, I think on the one hand there is the backlog that we have going into next year.

At the end of quarter 1, we set out what that backlog was and it was around about EUR8 billion across the two segments. You can compare that against the revenue guidance that we have for this year, which is between [EUR11.2 billion] and [EUR11.5 billion] for the Group as a whole. And we will continue to take orders between now and the end of the year.

I think what we want to do is to make sure that -- I will never say regardless of what the order intake does, but the idea is certainly that we had, in putting the plan together, was to make sure that over 2016 and 2015, even if project awards continue to be very slow, that we've taken proactive steps to make sure that we went into next year with a cost base that was adjusted.

If it turns out that we have more orders and more revenue over that period, then most of the costs we're making here we believe are, in large part, structural and reflect better ways of doing business. But certainly I think what we're looking for at this point, one way or the other, is downside protection for our shareholders.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Yes, thanks, Julian. A couple of comments on 2016, without getting into specific numbers and guidance, but a little bit of where we see the market going.

First, I think what we are going to see over the next six to 12 months in terms of new orders are going to be a mix between projects that are either at a very early stage or FEEDs, and which are going to be rich in man hours but not necessarily high revenue, and some projects that could be of significant size, whether it is a floating LNG or LNG or others or petrochemical, for example, in North America.

The thing that is quite interesting is that we see that the contrast between regions is getting bigger in the sense that we see, for example, that Latin America's downstream business is basically disappearing, whereas North America continues to be strong, particularly led by petrochemical and onshore LNG.

In West Africa, we see projects like in Mozambique moving forward, which could be a good thing for both floating LNG as well as traditional LNG, plus for basically subsea developments. So I would say our activity next year will probably be a mix between projects of small size, large number of man hours, preparing the longer term and preparing for final investment decisions similar to what we see with Browse and maybe a few large projects.

Now, going back to the backlog comment from Julian, I would say that most projects that we have in the backlog, such as Yamal today which are going to obviously contribute both in terms of revenue and profit in 2016, these projects are still there and there hasn't been any major change in the profile of our existing backlog.

Mick Pickup - *Barclays - Analyst*

Yes, and so just as a follow-up on that, then, from my perspective, where we're forecasting absolute levels for 2016 already, the bulk of that profitability should have been awarded last year or the year before. So what we're now doing is protecting 2018, 2019?

Julian Waldron - *Technip SA - CFO*

Mick, you've got in the backlog -- I would like to have a backlog for 2015 that was -- sorry, for 2016 that was EUR12 billion. We've got one at the end of Q1 that was EUR8 billion across the Group. So to bridge the gap between EUR8 billion and whatever number you want to plug in unless it's EUR8 billion, there is still work to do in terms of taking order intake.

We will make progress over quarter 2, 3 and 4 towards that target. But if we want to maintain some of the things that we've been discussing with you and with others, discipline on the types of orders that we take, protect the margin and the profitability of the orders that we take, then we want to continue to be selective. If that means that we should take restructuring actions and reduce our footprint in some of those countries, then that's what we're doing today.

If, equally, you see over the next one year, two years, three years, four years, that the chances of additional work for your x-hundred engineers in a particular country are very remote, then again, you have two choices. You either keep those on your P&L, or you look to either fill them with other work from other countries which may be more expensive, or you take again the restructuring actions.

So I think we're looking at the backlog we have. It's a very solid profitable backlog, as Thierry mentioned. But it needs to grow and what we don't want to do is find ourselves growing it with things that we will regret in 2018, 2019, if you want to go look out that far. That's the strategy which

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has been behind the way we've behaved internally, the way we've looked to take cost out over the last 12 months. But it's certainly one of the fundamental principles behind what we're announcing tonight.

Mick Pickup - *Barclays - Analyst*

Okay. Thank you.

Operator

Robert Pulleyn, Morgan Stanley.

Robert Pulleyn - *Morgan Stanley - Analyst*

A couple of questions from myself. Firstly, in terms of your slide 9 and just how we should think about these one-off charges of EUR650 million, would you be willing to broadly or specifically break that down as to what are any impairments on the balance sheet? Presumably, that vessel of your own that you're removing and also the one that you're chartering may have some charge associated with it.

And specifically, what provision or additional costs have you put aside for these projects in the onshore business which are no longer proceeding?

And the final part of that is, is there any impact on the backlog from those projects in Algeria and Brazil that you mentioned? Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thanks, Rob. I'll start with your question and first, to make sure that we understand that in this one-off element which is 60% cash and 40% non-cash, there are basically four buckets. One is the restructuring and severance charges. Second one would be asset writedowns and impairments such as vessels and, as Julian was saying, we are going to accelerate the retirement of an additional two vessels.

Then costs from the footprint reduction, and this is where as we are going to reduce significantly, potentially exit in an orderly fashion from certain countries, we have to make sure that the projects are managed properly. But it is a process that is more costly when it is during closing down or reducing significantly your footprint in one area such as, for example, downstream Brazil. And therefore, there are some additional costs that we believe we have to take in those ongoing projects beyond the normal completion of the project just because of the disruption which is imposed on us by the changes.

And the last element really comes from the fact that over now several quarters, we have said that we have some protracted discussion with clients. And, of course, since, I would say, December and earlier this year, as we said already, in end of the year and Q1, we have seen that clients were getting more and more difficult with variation orders in particular. Not necessarily with the main project, but with variation orders and that in the current environment, they are showing little or no flexibility.

And we did feel that it was the right thing to evaluate the risks on not getting the variation orders or not to the level we were expecting, and then make the appropriate amounts, set the appropriate amount, for these projects.

Now, I'll let Julian give you a little bit more color on these buckets.

Julian Waldron - *Technip SA - CFO*

Rob, thanks for the questions. I'm afraid, given that some of those costs impact projects on which we will continue to work and we're continuing to discuss with customers, I'm afraid I'm not going to give you a breakdown or an amount by different types. I think the breakdown that's important, as far as I look at it anyway, is the 60% cash, 40% non-cash split and the tying of that cash-out. I think that's important.

I will, however, answer specifically your question on backlog and the answer is no. That one project in Algeria which is now stopped for us, that was a very well-advanced project and you will not, frankly, see any material amount or any material change in whatever respect because of that in the backlog. So the backlog is not impacted.

Robert Pulleyn - *Morgan Stanley - Analyst*

Okay. Thank you, and I appreciate the sensitivities around that. If I may just ask two very quick follow-ups? One is, in terms of working capital, has there been any reduction in that associated with those discussions with clients?

And then maybe looking further forward, obviously, you talked about a pretty tough environment, which I think we'd all agree with, at what oil price do you think that might turn around? Thank you.

Julian Waldron - *Technip SA - CFO*

On working capital, no, there's nothing that I want to call out at this point, Rob. I think the cash at the end of the second quarter will be north of EUR1.2 billion. That's probably slightly better than what we expected it to be. You can look at the working capital evolution over the last several quarters and I think you have a fairly normal profile of working capital with a build-up as the order intake has come in. And you will see in 2015, as the year goes on, a fairly normal progression in working capital as those cash advances are applied to projects as they move forward.

A lot of the cash over and above our expectations that we had at the end of December -- and we were at EUR300 million or EUR400 million better than we expected to be, I would say both at the end of December and a little bit at the end of March -- you're seeing that begin to run off, as it should do, as those cash advances are applied to move forward some of our larger, newer projects, whether that be the big West Africa projects in subsea or the big projects like Yamal, for example. So I think the working capital profile has been quite normal and I don't see it changing much from what we said it would be.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Going to your question about the oil price, well, first of all, I don't think there is a magic number here. There is not a magic number above which suddenly projects would come back.

I think the hypothesis that we are making here is that we are in an environment where, even if the price of oil could fluctuate and eventually go back slightly up all the time, we are in an environment where the game is absolutely to work on cost, and where our clients will be relentless to find the best cost and the most efficient solutions.

As many of projects have moved to the right, if you look at the entire industry, I'm not just talking about Technip or the E&C industry or the subsea business, but the overall service industry has moved into an overcapacity situation across the board, which means that for a while, until this is sorted out, the clients will be continuously pushing for cost reductions.

There are three areas where we can work on cost and this is where, at Technip, we want to be very proactive there. First, there is internal cost. The plan that we are presenting today is to ensure that we are reducing our internal cost, not only to deliver to our shareholders, but to make sure that we are more competitive on our project for our clients.

The second element, which Julian described briefly, but which was not the purpose of this plan but on which we are certainly very much focused, is everything around procurement, logistics, subcontractors, making sure that the cost optimization is happening on this element.

The third element, which I think is the one where, over time, we can get the best structural cost out of the system for the longer time is actually on the design cost. If we look at what Technip is doing today, we are cutting our internal cost. We are certainly looking at better ways to procure equipment, subcontractors, logistics. We have even involved ourselves in logistics, like in Brazil. And we are working at an early stage with client on design cost. I think these are the key elements.

When clients were telling us, well, exactly a year ago when the price of oil was $110 that their offshore projects and their subsea projects were not viable, it is because they already had a cost issue at that stage. So you can imagine that today at $60, the issue is even more acute and, therefore, the way we drive Technip for the years to come, is yes, obviously, to look at new technology and so forth, but also to make sure that we work on these three cost element.

Then the price of oil, I wouldn't say it's irrelevant, I would be wrong to say that. But at some stage, our clients will know how to make money at $60, at $50, or maybe even at $40. It's a matter of getting together and making sure we work on these [levers].

I don't know if that answers your question. It's a long answer, but I think it's very important to understand that Technip is not just sitting and hoping that the price of oil will go back up one day. We are taking proactive measures.

Robert Pulleyn - *Morgan Stanley - Analyst*

That's clear, Thierry. Thanks also, Julian. I'll hand it over.

Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - *HSBC Global Research - Analyst*

Two main questions, please. First one, I'm interested in the signs of irrational behavior that you've alluded to in the statement. Is this more in offshore/onshore, subsea, or is it just across the piece? Any geographical or subsector detail you could provide in relation to that I think would be helpful.

Second question, I suppose just really in terms of the vessel strategy, can you just talk a little bit more about the composition of the remaining 23 vessels? What core competencies will you be left with as you lose over one-third of your fleet, and what will you be looking to source from the market in the future? Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Well, I'll take both questions and if Julian wants to step in you may at any time. First of all, about the irrational behavior, I would say two things. First, over the last six months, there hasn't been a very huge amount of awards, as you probably have seen; in fact, there's been quite a slowdown and delays in project awards.

I cannot have a full benchmark in all regions and so forth. But I would say we have observed irrational behaviors, sometimes from new entrants, in particular in subsea, or from companies, both in subsea and onshore/offshore that had a very low backlog I would say, or low visibility. I don't think there is a particular region in which we see more irrational behavior.

What I can tell you is that our customers have shown a little bit of concern when they saw that some prices were significantly below their budgets, and definitely could not be executed, even assuming that the cost of procurement and the cost of vessels could go down.

I would say this is something where, if you remember what we did in 2009, we avoided certain contracts because we didn't want to get into that price war, if I may say. That's why in some cases, it is better not to bid, or to bid at the price where you think this is the right price, other than getting into that race.

Now, going to the vessel strategy, we said that by the end of rationalization phase, we should be left with about 23 vessels, three of them being leased, so we still have a little bit of visibility with the leased vessel. But what I'd like to say is that we will have a fleet then, which is not only quite modern but also very capable. And we have basically all the elements that we need to have the full toolkit to be very competitive in the subsea environment.

We have two things in addition to that; the fact that we obviously continue to have the alliance with Heerema, who are giving us access to ultra deepwater. And of course, we will be working with Forsys Subsea and FMC Technologies to make sure that the design of the systems that we propose to our clients is fully optimized, including with the installation, which means including with these vessels.

Our plan is not to reduce that fleet any further at this stage. In fact, if you look at what we have done over the past couple of months or so, we have rationalized. We have decided to let go certain vessels which were less capable, such as one diving vessel in the North Sea. At the same time, we bought the other 50% of a very capable vessel, which is the Skandi Arctic.

It's not just rationalization and taking out capacity, it's also ensuring that we have access to the vessel that are the most capable in the market, such as the Skandi Arctic or, for example on the pipelay side, such as the Deep Energy or the Global 1200 and 1201 vessels. So we believe we have now one of the best fleets in the market, particularly with the addition of Heerema.

Julian Waldron - *Technip SA - CFO*

Philip, it's Julian, if I could bring it back to competitiveness and cost? If you look at the fleet today, it's composed of groups of vessels that have strong similarities between them, so the Skandi Niteroi, the Skandi Vitoria, for example, sister ships. If you look at the 1200, the 1201, the same thing. The Skandi Arctic and the Deep Explorer, which will be our new replacement dive support vessel, we can optimize the cost, the efficiency, the reliability for our clients, of those two vessels by fully owning them together.

So a lot of what we've been doing is to produce a fleet that is easier to maintain, cheaper to maintain, more reliable, safer, better performing. That's going to enhance the productivity which is to benefit the client; it'll also benefit us.

Phillip Lindsay - *HSBC Global Research - Analyst*

Okay, great. And then just one follow-up, if I could? It'd be great to get an indication of how you're going to approach the dividend for FY15. Will the decision be based on underlying financials, or will you take into consideration the one-off charges? And then, perhaps in relation to this, do you still think it's the right backdrop to be pursuing M&A?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Well, you know what our dividend policy has been, which is we do have a policy to have a dividend and we have increased the dividend over the past few years by 9% per year on average. And if you look at our track record, even in some more difficult periods, like for example 2009 or 2010, we always had a dividend. So I don't see any reason for which we should change our policy. Of course, the decision is a decision which is a February 2016 decision.

Julian Waldron - *Technip SA - CFO*

But we've never taken one-off charges as a part of that dividend policy, Phil. You go back and look at the track record and, I think, you'll see that confirmed.

Phillip Lindsay - *HSBC Global Research - Analyst*

Okay, great.

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

Two questions from me, please. The first one is just to go back to tying up some of these numbers that you were discussing around cost. In particular, I think, last year you had around EUR9 billion of cost of sales that you flagged about EUR4 billion of it was in procurement. And then, today, you're flagging around EUR4 billion of direct and indirect cost base take. I want to understand how these numbers all tie up and maybe try to get a sense of what is a variable and a fixed cost, and which components you're addressing. That's my first question.

And my second question relates to what is your return on capital employed target, say, post these restructuring charges? Thanks.

Julian Waldron - *Technip SA - CFO*

Amy, thank you very much. I'll take those two. For the second question, I don't think anything has really changed in the way that we look at that. We've looked to drive subsea over a cycle at [15%] or more, and we've looked to have negative capital employed in onshore/offshore.

Last year we were below that number in subsea, but with the increase of profitability and revenue, I think, we're moving definitely in the right direction. And I don't think it's the asset impairments that really change that a lot. It's the profitability over the last 12 to 18 months in subsea that's really been the driver.

As far as onshore/offshore is concerned, we will continue not to have capital employed in that business. And again, I don't think today's announcement really changes anything in that respect.

As far as the first question is concerned around fixed and variable cost, we have two main buckets of cost in our P&L. There's the direct and indirect cost that we refer to in today's announcement. So that's essentially the people, the real estate that goes with them, the cost to make the business turn, like IT, travel, all of those sorts of things that make the engineers in the Group, makes them supported, gives them a place to work and enables them to deploy themselves on projects. And that's whether those people are permanent or contracted or temporary employees.

In addition to that, which in 2014 was around EUR4 billion of cost, there is a second area of cost, which is direct, variable cost on the projects that we have. And that's fully linked to the projects. So if you execute a construction project, you need a construction company; you need to procure the material specifically for that project. And that's about another EUR4-odd-billion of cost in 2014, maybe a little bit more.

But it's the first part, that direct and indirect people, whether it be permanent or temporary, real estate footprint, IT, the support of the engineers, it's that area of cost which is addressed in today's announcement to take EUR830 million out of that.

The other bucket, the procurement, the subcontracting, the raw materials for our manufacturing plants, we have actions in place for that. But that cost is directly linked to the volume of projects we have. If you don't have a project, then you don't need to hire a construction company or do procurement, so that's fully variable cost. What we're addressing today is the part of the cost base that is less obviously variable. And that's why the plan is in place to take out that EUR830 million which, as I said, is just over 20% of that direct and indirect cost base.

Amy Wong - *UBS - Analyst*

Good. And just to go back to your ROCE, your first response, are you able to give us the Group targeted ROCE?

Julian Waldron - *Technip SA - CFO*

I confess we don't measure it like that. That's because the business models across onshore/offshore and subsea are so different between the two. We've never looked at it on a combined basis. What we've always focused on is the individual performance of those two segments, because one is capital intensive, needs a lot of CapEx every year to support the manufacturing plants and the vessels. And the other is much less capital intensive; investment [in] a little bit in knowhow, in some R&D, and in the systems. So the profiles are just very different.

So we have always, in the way that we've looked at things internally and communicated externally, looked at those segments quite separately.

Amy Wong - *UBS - Analyst*

All right. Thank you very much then. I'll turn it over.

Operator

Nick Green, Sanford Bernstein.

Nick Green - *Sanford C. Bernstein & Co., LLC - Analyst*

It's a question for Julian, please. I wonder if we could return to the breakdown of the EUR650 million impairment. I appreciate that you can't really give a lot of detail here but, clearly, for investors' perspective, you can have good restructuring charges -- this is proactive cost cutting, exiting businesses, downsizing -- and you can have quite bad restructuring, which is provisions on bad projects.

Now, even if you can't give us a detailed breakdown of that number, can you try and help us understand, between those four buckets, roughly the size of that bottom one, the bad writedowns, because that is, obviously, the cause of concern for many people, that we may have further difficulties in projects further down the line? Thank you.

Julian Waldron - *Technip SA - CFO*

Nick, I appreciate the question, and although I'm not going to give you a direct answer, I'm going to say that the first three buckets are by far the largest part of the overall amount. I hope that's helpful.

Nick Green - *Sanford C. Bernstein & Co., LLC - Analyst*

Can we say less than 25% in the bottom bucket?

Julian Waldron - *Technip SA - CFO*

Nick, I appreciate you're going to carry on posing the question, and I'm going to continue, in my stubborn fashion, I apologize for that, to repeat the answer I just gave you.

Nick Green - *Sanford C. Bernstein & Co., LLC - Analyst*

I understand. I'll just give you a different question from a different topic. So in the press release, you talked about geographical exit and you named a couple of countries. Is there also end market exit being talked about here, whether it's refining, whether it's some of the other businesses such as FPSO construction? Is that being considered as part of the restructuring and the strategic realignment, if you like?

Julian Waldron - *Technip SA - CFO*

I think we would look at it on a much more geographic basis. We are executing, to give you an example, refinery projects in Mexico at the moment, successfully. We've just completed and will get acceptance, I think, during the month of July, on a major refinery complex for Burgas. We're executing a refinery project for Sasol; we're executing a refinery project and petrochem project for Petronas in Malaysia.

So we have a huge activity at the moment in refining, and that we intend to continue. It's capitalizing well, both on the knowhow and experience and track record that the Group has, but also, for example, in the technology that we have as part of Stone & Webster.

FPSOs, you saw us take a topside contract in Asia, but actually for an FPSO that will be delivered to Brazil in due course. So the view today is very much where are the geographic markets where we will or will not be able to drive profitable business over the coming years. There are no other specific market segments, absolutely not.

Thierry Pilenko - *Technip SA - Chairman & CEO*

If I may come back on one point in your first question, about the last bucket around the disputes on projects, and your concern about additional amounts. What I wanted to say is that Nello Uccelletti, our President for onshore/offshore, and his team have done a very thorough analysis of all these projects, to ensure that the appropriate amounts have been taken. So I know that people may think, what could happen, but I can tell you the work was very thorough, if that can help.

Nick Green - *Sanford C. Bernstein & Co., LLC - Analyst*

Okay. Thank you both for your answers there. Thanks.

Operator

Mukhtar Garadaghi, Citi.

Mukhtar Garadaghi - *Citi - Analyst*

Just kind of staying on the same subject. You mentioned Brazil and Algeria as problem areas; I was wondering, are there any other areas or projects that are a source of concern in this space? For example, Norway has been in the press, a couple of projects there. And has there been an exercise on the rest of the backlog, where there are variation orders outstanding potentially? And have you taken a view on the potential cost there as well?

And my second question, quickly, just in terms of a very generic question. You and the rest of the industry are undertaking quite a big cost-cutting effort; however, you're also referring to pressures from your client base. Do you see, when we've come out of this in a couple of years, do you see the industry being able to retain the current level of profitability? Or do you think there's a [structural move lower] here, despite the efforts that are being taken? Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

On your first question, what I'd like to say is that in our portfolio of projects, what we have noticed time and time again is when we have been involved at the very early stage, whether it is in the FEED or through an open book estimate process with the client, such as, for example, the Jubail refinery and the Burgas refinery, which are two very strong successes of refineries, that goes back to the question we had before, you know. It is not linked to a specific area; it's really linked to specific projects.

When we are involved at an early stage, and we have a very good understanding with the client of how do we manage the project, how do we execute the project, how do we manage the risk, we have a much greater chance of success. And I would say this is something that Nello continues to push, and that we will continue to push throughout the organization, because then we have very successful project, regardless of the geography. We have successful projects, for example, in Mexico, in Bulgaria, Saudi Arabia, in Malaysia, and these are projects where we have been involved at a very early stage.

Julian Waldron - *Technip SA - CFO*

I think for the second question, I don't know that we, at Technip, can answer for the industry as a whole, and I don't think that's what we're here to do. I think what we're here to try and get across is the way that we think we, as a Company, can help our clients in the current environment and, therefore, add most value to them and, therefore, see the greatest part of that value come back into our P&L.

So we're not focused so much on what the industry overall will do. We're focused on how we can keep our own costs under control, but keep investing in the footprint we have to drive our own value-added for our customers and, therefore, our own profitability. We think that's the best way, whether the industry overall is in great shape or in tough shape, we think that's the best way to drive things at Technip, I think. I think that's what we're focused on today.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Absolutely. I think we take our own view on the downturn, and we take the appropriate actions, and we have the ability to cut our cost base. We did it last year, and you can see that we are determined to do it this time again, and to anticipate something that is going to be, as we said, prolonged and harsh.

We have a long backlog, both in subsea and onshore/offshore projects, but we want to make sure that we protect this backlog and future projects by adding a cost base which is optimized. And I talked about the different levers of optimization. The main one we're describing today is around internal cost. We know, and we are convinced, that actually the industry needs a step change; a step change in the way we look at projects, look at the cost, but also the execution of projects.

That's why, as painful as it can be, but clearly when we talk about headcount reductions in many countries around the Group, and around the globe, we want to be decisive and efficient and organized, because we are talking about project management as well as implementing this plan.

But I'm convinced that if we are decisive, and if we are efficient, we will be able to stay ahead of the curve, and we will be able to invest and prosper, even if the oil price stays where it is, or it is really linked to our ability to be more performing. And I think we can leverage our strengths in this market.

Mukhtar Garadaghi - *Citi - Analyst*

Sorry, just a very quick follow-up to Julian, if I may? Julian, given the transparency you're providing around the cost savings to the industry, do you expect to be able to hold on to these cost savings? Or do you expect that you will be expected to pass those on to your clients?

Julian Waldron - *Technip SA - CFO*

I think what's certain is that the cost savings that you will find in the procurement chain, in other words the costs which go directly on the projects, I think those costs are going to be used across the industry to help our clients bring their costs down.

One of the strengths we bring our customers at the moment is the quality and strength of our procurement worldwide, and we'll use that not only to help ourselves, but also to help our customers. I think the actions we're taking today, and I don't think I want to go beyond that, but they will underpin our perspectives.

And I think I'd go back to the answer I gave to Mick earlier on: we view this as, yes, a proactive and anticipative response to what could be coming to the industry in 2016/2017, but it'll certainly help us underpin the profitability of our business in subsea. And as you've seen, it'll help us drive a much better performance out of onshore/offshore.

We're not happy with onshore/offshore earlier this year. Subsea, I come back to it again, is in terms of project execution certainly outperforming our expectations so far this year, and that's reflected in its performance and profitability.

Mukhtar Garadaghi - *Citi - Analyst*

Thank you very much.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Kimberley.

Kimberly Stewart - *Technip SA - VP, IR*

Ladies and gentlemen, this concludes today's conference call, and we'd 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, and a transcript some time tomorrow. You're invited to contact the investor relations team should you have any questions, or require additional information.

Once again, thank you for your participation, and enjoy the rest of your day.

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