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PRESENTATION

Operator

Good morning, everyone, and welcome to Technip's second-quarter 2013 results conference call. As a reminder, this conference call is being recorded. At this time, all participants are in a listen-only mode. Later, there will be a question and answer session. I will now like to turn over the call to your host for today's conference call, Mr. Thierry Pilenko, Technip's Chairman and CEO. Sir, please go ahead.

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 or Technip, and with me are Julian Waldron, our CFO; Arnaud Real, our Deputy CFO; as well as Kimberly Stewart and David Tadbir of the Investor Relation team. I will turn you over to Kimberly, who will go over the conference call rules.

Kimberly Stewart - *Technip - Head of 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 strong 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 audio replay of today's call at Technip.com. I now turn you over to Thierry, who will go over the second quarter 2013 highlights.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Kimberly. I'll start with the highlights of the second quarter. In Q2 our team generated revenue of EUR2.4b, which is an 18% growth compared to last year. This quarter our operating margin was 10% and our net income grew 19% to reach EUR162m. Our earnings per share rose by 18% to EUR1.35. During the second quarter, our order intake was EUR2.8b with a backlog reaching the end of the quarter EUR15.2b.

Now looking at the key achievements during the quarter, I would like to highlight, well, first of all that our margins were solid in both our segments, that our Deep Orient, the latest vessel to join the Technip fleet, showed good performance while completing her first projects, Asgard and Goliat. And she will sail to Asia in the autumn after her North Sea campaign.

As far as the order intake is concerned, we have maintained our policy to have a portfolio of new orders which is as diversified as possible. And I would just highlight three projects -- the Iracema Sul in Brazil, which is a flexible pipes supply for the pre-salt, we will come back to that during the call; Pacific LNG, Canada, which is an early involvement in the FEED of major projects on the Pacific coast of Canada, LNG project in Canada; and the P-76 FPSO in Brazil where we won engineering and integration of topside for Petrobras.

So in the quarter we have continued to grow our workforce. And in fact we now have nearly 38,000 people in 48 countries worldwide.

I will now turn over to Julian, who will present more details about the second quarter. Julian?

Julian Waldron - *Technip - CFO*

Thierry, thank you very much. So if I may, I'll start with slide five with some more comments on the order intake. And I'll start with Subsea. Compared to quarter one where we have Moho, there's no large standout project. But there was a strong order intake worldwide for equipment, flexible pipes for Brazil as Thierry mentioned, but also for example flexibles and umbilicals for Egina. The latter will be one of the first projects to take up the new steel tube umbilical capacity at the Newcastle plant. And for us that that's a good sign of confidence of our clients in what that plant can deliver once the capital investment has been put in. Otherwise there was also a good number of smaller and medium-sized installation projects, quite geographically diversified.

In Onshore/Offshore at the beginning of the quarter we took the P-76 EPC project. And for the rest of the quarter we continue to take good FEED work, as Thierry mentioned, and some small EPC work including in the Middle East and including brownfield work. And we continued to mobilize a significant number of people for early works on Yamal.

Turning to the P&L and starting on slide six with Subsea, we had a satisfactory quarter. We made faster progress on a number of our projects and so had good revenue recognition. And that enabled revenues to grow by 12%. Many of the larger projects, as you know, are still in their engineering and procurement phases. And we continue to ramp up on Moho in particular. North Sea projects such as Quad and Boyla move forward with their engineering and procurement phases. But offshore operations were also progressing on some key projects, such as Asgard, as Thierry mentioned, for the Deep Orient, Golden Eagle, Brynhild, Liuhua in Asia Pacific. And we closed out some projects during the quarter too.

As you've seen we had a good vessel utilization at 84%, and that utilization rate was well balanced across the fleet. All of our major vessels were working and working pretty much flat out during the quarter.

Accordingly, second quarter Subsea margins were better than we'd expected earlier in the year, and for the first half were in line with our full-year objectives to be around 15%. I note that some of the quarter performance is probably faster recognition or faster progress than we'd previously anticipated. You shouldn't assume that it's absolute upside for the full year.

Slide seven, Onshore/Offshore. I think one of the important points is just how many projects are contributing to revenue at different phases in Onshore/Offshore. The backlog is very diversified, with projects towards the end of their execution phases, such as Jubail, others in the middle, such as Algiers and Prelude. And we now have projects in early phase, such as Heidelberg.

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I would comment that we've had questions, as you might expect, on Jubail recently. As you know, we don't comment on individual projects. We leave this up to our clients. But we have noted that our scopes and we have two packages are progressing well. And I would add that as a result we're actually able to start ramping down the workforce on those two packages, and we're at less than half the workforce peak as they move towards completion.

Revenue was up a strong 23% growth and the margin held up well despite this growth, and was right in line with our target range.

For the Group P&L on slide eight, revenue for the Group grew 18% overall, EBITDA and operating profit up 14% and 17% respectively. I have nothing to note between operating profit and net income. There are no non-operating charges and the financial charges had no particular swings in the quarter. The tax rate was 29%. Accordingly, our net income was up 19% in the quarter.

The only area that we would like to comment on is earnings per share. Over the last couple of years, given the dilution from the convertibles, the EPS has not tracked the growth in net income, but the rise in the share count is clearly starting to flatten out. And we saw an 18% rise in EPS this quarter.

On slide nine, a couple of comments on the balance sheet. The net cash position changed from minus EUR91m -- or net debt, if you will, from EUR91m to EUR71m from end quarter one to end quarter two. And you've got the main factors summarized on slide nine. Working capital movements at minus EUR75m were much more modest than in quarter one. And I think we were -- we felt that the balance between money spent to progress projects and advances on new and existing projects was better in this quarter than in quarter one.

One or two of our major newer projects and one or two of our existing projects delivered good cash advances in the quarter, as we'd hoped. CapEx was clearly significant, EUR171m in the quarter, after EUR128m in the first quarter. And last, between the dividends and the sharebacks we returned just over EUR200m to shareholders in the quarter.

We wanted to comment a little bit on future CapEx. There's not any particular detail to give, but we would note that we are expecting -- and I think we would describe it as an expectation to contract for four vessels with Petrobras, four new PLSVs. We expect two of those to be built locally and two internationally. And then if confirmed we'll have a fleet of two older and eight newer vessels operating in Brazil and they would include four Brazilian-built vessels.

As we've said before, we'll take this new contract with -- in partnership with [DOFF], and we do intend to pursue a partnership strategy for our charter vessels in Brazil. At this point. we know that the four vessels will be three to four years in construction. We will have some down payment obligations during the construction period. But we expect this to be quite limited. Once the contract is -- the contracts are put together during the course of Q3, we'll be able to comment for our next quarterly update in more detail.

On slide 10, we'd like to give some more details on backlog. Our backlog remains diversified. We've given you the reference to 2006 as a long-term benchmark for the diversification and we've indicated the changes over the last six months. The geographic diversification remains good and reflects the momentum that we see in West Africa in particular. In the backlog by market split, in particular awards in West Africa, have increased the trend towards deep water operations.

Turning to slide 11, as we've said many times the well-diversified backlog we think is a critical long-term success factor in our industry. We've given an update on some of the information we gave back in February on contract size. So for example out of the EUR7.4b Subsea backlog that we currently have, the largest project is the Moho Nord project that we took in quarter one in West Africa, which is valued above EUR1b. This is followed by the recently awarded Iracema Sul flexible pipes supply, Mariscal Sucre, which is in its execution phases this year in Venezuela, and Quad 204, which is in its earlier phases. There are slightly over 150 (sic - see presentation "15") projects in our Subsea backlog, between EUR100m and EUR300m.

In Onshore/Offshore the largest contracts are Shell FLNG in the Etileno XXI in Mexico, and Martin Linge in Norway. As you know, for example, for Shell and for Etileno XXI, we worked on the early phases, the conception and the FEED phases of those two projects. And we have around 15 projects in our backlog, between EUR100m and EUR600m.

We won't do this every quarter, but we will continue to try and keep you up to date with that diversification. We continue to think it's very important.

So we enter the second half of the year with a backlog of just over EUR15b. There's EUR4.4b of that estimated to be carried out by year end. As we said in the press release, we're going to be very active therefore on projects, and many of those are entering important construction and offshore phases in both segments in the second half. Accordingly, we need to remain first and foremost collectively focused on executing those projects to deliver the second half objectives and for the longer term continue sustainable and profitable growth.

On slide 13, you see that we maintain our full-year objectives. They're in line with what we said in February; I won't go through them in detail. We made the point right at the start of the year that the quarterly margin in Subsea would be volatile and the first half has shown this to be the case. Please expect that to continue in the second half. We'll continue to have revenue on some projects in their early phases without margin. And we'll also be prudent in not recognizing margin before we've successfully gone through offshore phases. It's too early to say how this will turn out through quarter three and quarter four and so I won't go into any more detail on that. It could even be that for once we have a better margin, for example, in quarter four than quarter three. So please just expect a certain amount of volatility.

And with that, I'll hand back to Thierry to talk about key developments and the outlook.

Thierry Pilenko - *Technip - Chairman and CEO*

Thank you, Julian. Over the past few quarters we have continued to see good momentum in project sanctions from the client side but still early in exploration production. And if we try to understand where it's coming from, I think I've often referred in the past few years about demand growth that everybody is talking about, but also about the depletion rate. In fact, our business is mainly driven by two main factors, which is the oil and gas growing demand on the one hand, and the depletion of the oil and gas fields.

And in fact on slide 15 you have a picture of that, that shows that first of all over the next couple of decades the oil demand is forecasted to grow by about 13m barrels of oil -- this picture is for oil only -- while actually the current oil fields are forecasted to deplete by around 6% per year. That creates a huge gap 20 years down the road between existing fields and demand.

And we believe that this is something which is a strong driver for customers to sanction new projects and to give themselves very aggressive targets sometimes in terms of production. And these new fields, in particular those that are offshore or in deeper waters or in more remote areas such as Arctic, are sometimes smaller and are generally more complicated. So this is why we see the involvement of Technip with more engineering resources and with more conceptual resources in the early phase of the projects. So we believe that this is one of the two reasons for the market to remain solid and for clients to sanction projects upstream.

So we haven't seen actually any meaningful change in our clients' drive to sanction projects in the past few months. And they continue to look for obviously cost-effective but also technologically-sound and technically-sound projects for these environments which are often more complex or harsher.

Now moving region by region on slide 16, I don't intend to cover all the details in all the regions. I just highlight a few things in some core regions where Technip is operating.

If we go to North America, it is clear that the US shale gas revolution is now turning into that phase that we've been talking about for a while, which is getting into EPC for the first projects, particularly in petrochemical but also we see a movement in LNG and in GTL. And we are very, very involved in the next wave of FEED work for this environment.

Moving to Latin America, as Julian said, the activity in Brazil continues to be strong and the pre-salt development is moving ahead, which was illustrated by first the award of the flexible pipe in Iracema Sul awarded to Technip, and also by the imminent awards of the pipelay vessels -- we should have up to four pipelay vessels which are going to be particularly focused at the pre-salt development for the ones that are capable of having a 750 tonne -- tension, capacity. So Brazil will continue to be strong for Technip.

Moving to the North Sea, still the same trend, very busy area, larger and more complex projects. We already saw that trend the past couple of years, but this is confirmed.

Middle East continues to see sustained volume of activity, refining, petrochemicals and a lot of small- to medium-sized offshore projects.

Moving to Asia Pacific, it's a buoyant region. Although there is some competition in Asia Pacific, it's a very active region. I would just highlight the fact that that we start to see pretty real change from onshore LNG developments in Australia to potentially floating LNG, something that we had said was a possibility a few quarters or a few years ago and now it seems to be turning to reality.

Now focusing on Africa, for the past couple of years everybody noticed that the momentum of new projects was pretty low or pretty slow in West Africa. Now it is coming, and we have seen a good momentum of project awards in West Africa. Of course Moho Nord, which we announced in the first quarter, and Egina, even though the -- our contribution to Egina will be smaller than the one on Moho, but both of these projects are going to be fully utilizing our vertically-integrated business model, and particularly utilizing the new assets that we have either developed or invested into, such as the G1200 and the new steel umbilical manufacturing plant in Newcastle.

So in West Africa we are expanding our engineering presence and manufacturing capabilities. I remind you that we have capacity to build umbilicals in Angola. And we also have several engineering centers and -- along the coast of Africa, where national content is becoming more and more important as we have seen with the success that Technip has had in Ghana, for example.

So I was talking mostly about West Africa. East Africa is also moving. It's further down in the future before we see the larger Mozambique or Tanzania projects being fully sanctioned. But the reserves are huge and I think it's going to be a major area of growth for our industry.

Moving on to slide 18, something that we also highlighted for many years now, which is the strategy of getting involved at a very early stage on major projects when the clients are actually making decisions about technology and about the specifications at the conceptual stage. And this is why we continue to position ourselves strongly on FEEDs. And you know that among the many ongoing EPC projects that we have in our portfolio, many of them are actually the result of that early involvement in FEED, such as for example Etileno XXI for Braskem in Mexico, Aasta Hansteen Spar for Statoil and Prelude FLNG for Shell in Australia. We will definitely continue to have this technology-focused focused and early involvement focus to win and support our business in the long term.

So that's why when we turn to our strategic framework, we stay the course, and we are not changing anything to that framework. Our objective is to deliver sustainable and profitable growth through diversified backlog, key assets, and you've seen our investment profile, technology, vertical integration, national content, and first and foremost, execution, execution, execution. So our teams are going to be very focused on delivering the second quarter as Julian was saying. Execution is key in all of our projects, particularly when we get into the offshore phase for Subsea, or the fabrication or construction phase for Onshore/Offshore.

So I take this opportunity also to thank the employees of Technip for delivering this first half and staying focused on execution in the second half.

Now we will turn the call over to -- for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. (Operator Instructions). We have our first question from Geoffroy Stern from Kepler. Please go ahead.

Geoffroy Stern - *Kepler - Analyst*

Yes, hi, good morning. Geoffroy Stern from Kepler Cheuvreux. I just have one question, actually. It's a fairly -- it's a macro question on E&P CapEx. We've seen obviously a fairly robust oil price environment and despite this, some projects, not only in Angola but in the North Sea and the Gulf of Mexico, have been delayed. Would you say and apparently those projects had decent breakeven prices? So would you say that basically the operators become more conservative in their attitude towards capital-intensive long-lifecycle project? Or basically they realize that breakeven on those projects were basically higher than expected? And what do you -- I mean, do you expect any change going forward on this?

Thierry Pilenko - *Technip - Chairman and CEO*

Actually, Geoffroy, thank you very much for this question. It's very interesting because we did see a few projects being postponed or -- I wouldn't say cancelled, but postponed, and being rethought and they -- if we analyze all these projects, there are slightly different reasons for this project to be postponed. I don't think this is the beginning of the trend or the operators becoming conservative.

More likely I think it looks like for certain of these projects, particularly the offshore project, it looks like the solutions, the technical solutions that were previously applied to fields of a larger size are no longer or marginally economical for smaller fields. And in fact, in many cases we have seen clients coming back with questions about could we optimize the design and go to something which maybe is more fit for purpose, because when you have a 500m to 600m available reserves, you cannot actually apply the same methods and the same technical solution as when you have EUR1b or EUR1.2b available reserves. So many of the offshore projects in particular are being rethought to try to find [optimal solutions. So they're going to happen, but they're going to happen with slightly different solutions.

Now when it comes to LNG in Australia, this is certainly a complicated situation where certainly we have seen a huge inflation of the cost of LNG plants onshore, and inflation in terms of direct cost but also delays which makes the economics of these projects very challenging. So this is why our customers are looking now -- some of our customers -- are now looking at possibilities to use floating LNG, which is something that we say that in an expensive environment like Australia could be an alternative solution.

So let's not put all these projects in the same basket. I think our clients have always been very careful with their capital investment but at the same time let's not forget that most of them are forecasting or committing to increased production. And it's very difficult to increase production without new projects and new CapEx.

Geoffroy Stern - *Kepler - Analyst*

Right. And just one follow-up if I may, I'm sorry. How do you feel about the supply/demand balance in the subsea market in the upcoming two years? I will finish there.

Thierry Pilenko - *Technip - Chairman and CEO*

Well, when we look at the projects that we have coming in the next couple of years, and provided that these projects happen, you know we have seen momentum in West Africa. You see what's happening in Brazil. You see the Gulf of Mexico being pretty strong. Asia, including gas in Australia and so forth. At this stage, we think that the supply and demand seems to be okay.

Now, there are a number of vessels that ate in -- under construction, we will see as these vessels come to market. But so far we seem to have fairly balanced supply and demand in terms of specialized vessels.

We may have, in -- at the lower end, in the supply vessels or maybe light construction vessels, this may be an area where there could be some excess capacity. And this is why we observe that at this stage the price for light construction vessels that we may be leasing for a short term on our projects are pretty stable. So we are not seeing any major movement at this stage.

Geoffroy Stern - *Kepler - Analyst*

Thank you very much.

Operator

We have the next question from Rob Pulleyn from Morgan Stanley. Please go ahead.

Rob Pulleyn - *Morgan Stanley - Analyst*

Good morning, gentlemen. Rob Pulleyn from Morgan Stanley. Just one question from me. Given a lot of the concerns that's been out there over the last few months, and I note your continued focus on your diversified business model through different end markets. Could I ask along those lines, what is the approximate split of your contracts by the different risks you undertake? i.e. between your manufacturing sales, your lump sum exposure, your cost-plus exposure, and your day rate contracts? Just to give an idea of how diversified the risk is in terms of the contract view. Thank you.

Julian Waldron - *Technip - CFO*

Rob, it's Julian. Thanks for the question. Given that if you take a lump sum turnkey project, the volume of revenue through the engineering procurement and construction is so much bigger than if you take a reimbursable project, then in the backlog you're always going to have 75%, 85% of your revenue coming from EPC. And that's just the way the backlog I think in any company in our industry is going to be composed if they're in lump sum turnkey.

For us what's important in diversification, if we just take, for example, those lump sum jobs, is for example, how many of those have we performed conceptual FEED work on? How many of those have gone through a phase of open book estimate before they've converted into lump sum? How many of those are engineering and procurement with construction management rather than construction as a lump sum? How many of them are carried out with our own assets? So I don't ever expect in a business like ours the flat basic headline percentage share of lump sum business to be much different from the numbers I've given. What's important is how you've won those jobs, how early you've got involved in them and then within them, how diversified they are. It's very different having 50% of your portfolio in one geographic region, all of it lump sum, and having the same volume of lump sum but across a broad range of projects in different geographies. That's what we try to drive in.

Rob Pulleyn - *Morgan Stanley - Analyst*

Okay. Thank you very much.

Operator

We have the next question from Alain Parent of Natixis. Please go ahead.

Alain Parent - *Natixis - Analyst*

Good morning, everyone. My question is about the backlog today. Could you give us some light on the vintage of the backlog? I mean, how much of it was awarded in 2009 and 2010, in other words, in the last trough? Thank you.

Julian Waldron - *Technip - CFO*

Alain, thanks for the question. We've probably got slightly above 10% of the current backlog from 2010 and before 2010, probably slightly below 10% from 2010 and a couple of points for 2009 and earlier.

Alain Parent - *Natixis - Analyst*

Great. This backlog will be executed this year, theoretically?

Julian Waldron - *Technip - CFO*

Over the next two years, very probably. But some of it is quite long term.

Alain Parent - *Natixis - Analyst*

Okay. One very quick follow-up, I'm sorry. Could you quantify the contribution of Yamal LNG in your backlog at that stage?

Julian Waldron - *Technip - CFO*

Tiny.

Alain Parent - *Natixis - Analyst*

Tiny? You mean, several hundreds, or -- ?

Julian Waldron - *Technip - CFO*

No, a few tens -- a couple of tens of millions.

Alain Parent - *Natixis - Analyst*

Okay. Thank you very much.

Thierry Pilenko - *Technip - Chairman and CEO*

Yes, in the case of Yamal, we are in a phase where Yamal LNG where we are doing engineering studies and preparing what we call the open book estimate. So it's going to be a very progressive phase, during which we are recognizing very limited backlog until we reach the more, I would say, critical phases and the final investment decisions.

Alain Parent - *Natixis - Analyst*

All right. Thank you.

Julian Waldron - *Technip - CFO*

Thank you.

Operator

The next question from Fiona Maclean of Merrill Lynch. Please go ahead.

Fiona Maclean - *BofA Merrill Lynch - Analyst*

Hi, it's Fiona Maclean at Merrill Lynch here. I have a question about the background evolution over the years. If we look back four years ago, your backlog stood at about $7b or so and today we're looking at a backlog of 15 -- sorry, billion euros, and today the backlog's over EUR15b. Can you talk about how much capacity you have in your business to be able to further extend that backlog?

And the second question on the backlog is we've seen quite a big increase in the amount of deep water projects you have in your backlog year to date. Could you just give an indication of how pricing is improving in that market for you? Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Well, in terms of -- the backlog evolution is one thing in absolute number, what you need to also to look at, Fiona, is the length of that backlog. And because some of our business has gone more into like -- give you an example, long-term charters with Petrobras for subsea, it has been a much longer backlog. Also some of the backlog that we have been securing, it's for execution into '15, '16, particularly for offshore phase in subsea. So you cannot just compare the total backlog at a given stage, because the profile of the project that we have is slightly different.

During that period we have increased pretty dramatically our workforce, and we have done two important acquisitions, one Global Industries and the other one was the Stone & Webster. And that's given us access to markets to which we -- in which we were not really present, whether it was the case of the FEED and petrochemical markets in North America, for example, with Stone & Webster, or in the (inaudible) market with the Global Industries assets.

So our market has expanded. Our asset base has expanded. And our workforce has expanded from 23,000 about to 38,000.

We have also increased our manufacturing capacity. And we are still expanding on that front because we have now the construction is moving fast on the Acu Plant. We have over the same period opened manufacturing plant in Malaysia. So our assets are well utilized, as Julian was saying, for the last quarter. But we still have capacity to win.

Now, our objective is not to grow the backlog at all cost. It's growing because we have the assets and we have the base to do it. Our objective is profitability and profitable growth. So what is very important is to keep that profitability in mind.

Now, the deep water part, the second part of your question is about deep water. Increasing in deep water is also accompanied by some increase in shallow water, because we've been more active into particularly the platform construction and offshore business for shallow water and also been very active in the -- in winning contracts in the North Sea. And North Sea is classified into shallow water for most of it, because it's below 1,000 meter water depth.

So we have seen growth in both of these markets. And I would say in the Subsea business we don't see a significant difference between projects that we win now in the North Sea and projects that we win maybe in deeper waters such as the Gulf of Mexico.

Julian Waldron - *Technip - CFO*

And, Fiona, I think -- it's Julian -- you might just take another look at the backlog slide on slide 12. The amount of Subsea business for executing in 2015 and beyond is higher than '14. And I don't think we've seen that if you go back four or five years. And if we look forward to the backlog if, for example, during the next few months we took backlog into the books for the four new PLSVs, that would be a very significant change to the backlog but that would be almost entirely for beyond 2015 execution.

We don't, again please don't take this too extreme, but we don't need to grow our backlog, if you will, to grow revenue. At one point, of course, we do. But our focus, as Thierry said, is growing the revenue and growing it profitably. Backlog is important, but revenue and profit is far more important.

Operator

We have the next question from Guillaume Delaby from Societe Generale. Please go ahead.

Guillaume Delaby - *Societe Generale - Analyst*

Good morning. I would like to come back a little bit on Geoffroy's question on E&P CapEx. And maybe not for now, but maybe if you can share what you can see in your crystal ball for 2014. Last Friday, during their (inaudible) call Schlumberger clearly has been quite optimistic regarding 2014 E&P spending and probably more optimistic than what most of analysts or investors would have thought. I just would like to know if you have some comments or some views or some ideas about what might be, in qualitative terms, 2014 E&P spending.

Thierry Pilenko - *Technip - Chairman and CEO*

Well, generally, we have a better idea of the next year expenses from -- in CapEx expenses from our clients from around between November and January when our clients start to announce their CapEx programs.

I would not make a direct comparison with well services and with Schlumberger in particular. The optimism that we may see in well services is coming in my opinion in two areas. The first -- one area comes from exploration and pure exploration, which if you look at the -- again at the chart that I am presenting in the set of slides, there are still a lot of fields that need to be found and then developed to fill the shortfall of production in next couple of decades. So part of well services will be related to -- or part of the spending will be related to exploration which has a direct impact, of course, on seismic and well services.

But when it comes to developments and infrastructure, where we obviously are very present at Technip, I believe that 2014 will continue to be a year of development. You cannot think, if you look at what the oil companies are committing to in terms of production, you cannot -- and production increase, you cannot think that this production increase will come from just from existing fields which are just not producing at the level they expect. The fields are -- the older fields are aging. They are aging fast. So there will be more investments next year.

Now, as we were saying before, the -- our clients are trying to design a fit-for-purpose solutions which require a great deal of innovation and engineering. But I do expect that we should see something next year where our clients are going to continue to increase their CapEx.

If you look longer term it is quite possible that the next decade, let's say from say '15 to '25, could see a rate of growth of CapEx which is lower than what we have seen in the past decade. But this is too soon to tell. There are so many factors. But at the moment it looks like we should -- we could see a slightly lower CapEx in the next decade.

But at the end when it comes to Technip we don't need so many projects to -- and also so many clients to actual fill a profitable and a profitable set of projects. So I think as these projects are becoming more and more technologically challenging we will have a good share.

Guillaume Delaby - *Societe Generale - Analyst*

Thank you very much, Thierry. That's very useful.

Operator

We have another question from Christyan Malek from Nomura. Please go ahead.

Christyan Malek - *Nomura - Analyst*

Hi. Good morning, gentlemen. Just one question, if I may? This thinking about the rate of growth slowing and to your point, Thierry, this -- demand is still there but the rate of change may not be as strong. How do you think about your costs? And I guess the two bits to that is the extent to which you can reduce your variable cost in periods where projects are delayed.

And then in terms of just managing your overall supply-chain costs is -- to what extent can that be -- what are you doing in terms of what are you seeing in terms of inflation? And what are you doing proactively to make sure that you are -- it's adjusted in case projects are delayed?

Thierry Pilenko - *Technip - Chairman and CEO*

Okay. Well, first of all, Christyan, it's good that we have a question on costs. But first of all I want to kill an idea. We are not in a period during which projects are delayed. Because we still see projects coming our way. We are still involved very actively involved into FEEDs and so forth. We have seen some projects in some areas that we have delayed, as we explained before, for very specific reasons.

So now I'll talk about costs and then maybe I'll add something about the overall business environment. At the moment, the cost environment that we see is pretty stable and it has been quite stable for the past year or so. Stable in terms -- particularly in terms of procurement, whether it is equipment, whether it is raw material and so forth.

There is one area in which we could probably expect some reduction over the next couple of years, which is the cost of steel, particularly for the bulk and for the offshore construction. This is something that we could expect because there is overcapacity in steel manufacturing. But if we look and we have every month very strong indicators on all the equipment, on the raw material (technical difficulty) And the costs and the price from our suppliers has been fairly stable over the past 12 months.

What is -- when we are talking about cost and when we listen to our customers, it's because they are attacking some difficult projects, for example, in deep water, with smaller reserves. That's why they are concern about costs. That's why they are really considering some of the technical solutions to have solutions which are fit for purpose. But we are not in a period where we see an increase of cost.

Now the -- I would say the only area where we have seen inflation over the past couple of years was in terms of salaries and so forth. But it was not an inflation that was similar to what we had experienced say in 2006, 2007. It's much more moderate because we are not competing as much as we did, particularly for construction resources, in the period 2006, 2007.

But I want to let you know that we are not in a period where projects are delayed. We are in a period actually where we see projects being sanctioned.

Christyan Malek - *Nomura - Analyst*

Okay. Thank you very much.

THOMSON REUTERS

Operator

The next question from Phillip Lindsay from HSBC. Please go ahead.

Phillip Lindsay - *HSBC - Analyst*

Morning, everyone. One question just on margins, please. It looks like the guidance implies a pickup for the second half. I think the midpoint implies you'll make just over 10% EBIT at the Group level. Based on that sort of run rate of improvement as we look into next year, are you comfortable with the mix of the projects you've currently got, the prices currently being bid for work next year, do support a rate of margin expansion in line with the Street? I think the market believes that all the expansion next year will come from the Subsea division.

Now, I know you're not going to specifically guide for 2014 at this point but perhaps you could just help us understand the moving parts and the key things to look out for. That would be great. Thanks.

Julian Waldron - *Technip - CFO*

Phil, thanks for the question. We always try to be helpful, even if talking about 2014 in July '13 makes it more difficult. I think the way that we view things at the moment in Onshore/Offshore, the backlog is diversified; has the risk profile to support the 6% to 7% margin in the medium term that we've had as our objective now for a few years.

We keep on getting asked, is it possible to push it above? And I think our response has been quite consistent. If we want to keep the same diversification and risk profile, keep some modest growth, then that's the right margin range to target.

In Subsea there is more cyclicality. We said that there are a few things that need to happen to tighten capacity utilization in the industry. One of those, for example, has been momentum in West Africa. We think that the momentum we've seen over the last six months will continue. And we think that's good for tightening industry capacity.

We think that things like developments in Brazil and the moving ahead of the pre-salt developments, again, on the flexible side to the industry overall, is good for capacity utilization.

We've indicated over the last couple of years that we've seen the pricing in the backlog, and again we think this is true for the industry overall, has been moving gently in the right direction. So I think '14, '15, '16, everything is going to continue to be dependent on the way that we execute projects, to some extent the phasing of those projects and the way that we recognize revenue and margin.

But I think our focus is very much on, how can we make sure that we execute well? If we do that then we think that we can deliver sustainable, profitable growth. At this stage, at this time of the year, I think we're unlikely to be more specific than that.

Phillip Lindsay - *HSBC - Analyst*

That's fair enough. Okay. Thanks.

Operator

The next question from Jean-Luc Romain from CM-CIC Securities. Please go ahead.

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

Good morning. My question concerns Brazil. Given the number of pre-salt FPSOs Petrobras plans to start between 2016 and 2018, I think it's probably 15 FPSOs, those FPSOs will need subsea subsystems. Do you think you will have enough capacity there to provide flexible, for example? Or do you think you might need to again increase capacity at the Vitoria and Acu plants?

Thierry Pilenko - *Technip - Chairman and CEO*

Very good question, Mr. Romain. Actually it's not 15 or 16 FPSOs, it's 22 FPSOs which are under construction in Brazil. And our plan in Brazil has always been to be behind the growth plan in the sense that -- of our clients. Not taking necessarily the most optimistic view of that plan but trying to bring the assets that are needed to be right below that plan.

And our objective is first and foremost to fill the manufacturing plant and then the vessels that we have on long-term charter for Brazil. So we are not thinking about additional capacity at this stage. We will finish Acu -- the Acu Plant by the end of this year. It will wrap up very progressively into 2014. And we can assume that actually the peak of orders -- well, I wouldn't call it the peak because it's going to be more like something that's going to last for several years. It's going to be more like into '15, '16 and so forth.

Our objective in Brazil, particularly on the flexible pipe, was not just to look at the volumes. It was also to look at the type of technologies we want to provide to Petrobras and our partners, so that we can be positioned on -- in ultra deep water and on the technologies that are the most promising for us in terms of returns and for Petrobras in terms of technical solutions.

So it's probably too early to say whether the capacity in Brazil will be sufficient. What we know is that in the past Petrobras have been able to find solutions outside of Brazil including, for example, for Technip, the capacity coming from our plant in La Trait. So I believe if they see that there is limitation in Brazil they will look at the international market.

Something that we also need to take into account in Brazil and in other places, by the way, is the fact that the -- there will be a market, a growing one, which is about asset replacement. And this is something that particularly in Brazil, as they will have to extend the life of some of the offshore FIELDS, they will have to start replacing, which they are doing already but maybe at a faster pace, the existing flexibles are to extend the life of the existing fields. So this is a market that is a bit difficult to quantify at the moment. But that will kick in.

This is why also we have insisted that Petrobras could actually qualify our Asiaflex Plant. So that in case we don't have enough capacity in Brazil we can use La Trait and Asiaflex in Malaysia.

But at this moment we want to fill Acu. That's our main priority. And fill our plants in Brazil. That's the top priority.

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

Thank you very much.

Operator

We have a next question from Andrew Dobbing from JPMorgan. Please go ahead.

Andrew Dobbing - *JPMorgan - Analyst*

Good morning. A quick question from me, please. Can you comment on your willingness to carry out EPIC contracts in Brazil at the moment? Or are you going to have to wait, like some of your competitors said, for terms and conditions to change? Thank you.

Thierry Pilenko - *Technip - Chairman and CEO*

Well, I think I don't want Technip to be compared to our competition in Brazil for the very simple reason we have been in Brazil for 35 years. We have a mix of business in Brazil which is very different from most of our competitors. You saw that we just won the integration of an FPSO. We have a strong manufacturing business over there and pretty soon we're going to be the leading PLSV provider in Brazil, so long-term charters for pipe-laying vessels.

We do from time to time bid on certain EPIC projects in Brazil when the conditions are right. And -- but we don't have a policy of doing or not doing, like some of our competitors may have declared recently. We just look at on a case-by-case basis what are the projects in which we think we can bring value to our customers and we can make money. And we continue to do like.

So our policy is to continue our business in Brazil and to work for Petrobras and the other operators in Brazil the way we have done it in the past.

Andrew Dobbing - *JPMorgan - Analyst*

Thank you very much.

Operator

(Operator Instructions). We have the next question from Amy Wong from UBS. Please go ahead.

Amy Wong - *UBS AG - Analyst*

Hello. Good morning. I'm going to stick with Brazil on my questions. For the four new pipe-laying vessels, new-build vessels that you expect to win from Petrobras, how does the pricing and terms and conditions compare to the three that you won a couple of years ago?

And just to -- and on that same vein, you already have six vessels that are currently on day-rate charters with Petrobras. So could you give us an idea of when those charters end? Are you currently in negotiation with Petrobras? And if there's any extensions to those, if there's an uplift to the margins on the current fleet, please. Thank you.

Julian Waldron - *Technip - CFO*

Amy, thanks very much for the question. So I think the first comment is we are satisfied that we're, through the PLSVs, going to provide very good assets to our customer that'll perform well at a risk/reward for us that's acceptable and attractive.

Having new vessels and having a large quantity I think gives us some advantages in the way that we operate those vessels. So I think that's also something to take into account.

And I think two other things which make it difficult to compare across the different charters that you see in the market is, first of all, the fact that we're building two of our vessels in Brazil and, secondly, we would expect that two out of the four will have a top tension capacity which will be a breakthrough in the market. So, again, I think not everything is going to be comparable either between the different operators or compared to what we have now and what we will have in the future.

So I think I'd go back to my first point. I think we're confident that we're going to give our customer good assets, performing well, at a return that's satisfactory for us.

I think just in terms of the existing vessels, the charters that we have on the existing vessels are actually quite recent. So there is no particular issue for us in terms of negotiating or extending. We'll see how those charters come to an end and then decide at that point with our customer if or how they get renewed.

The two vessels, the Sunrise and the Constructor, are reaching the end of their life. I think we suspect that they'll stay for the rest of their life in Brazil. But whether that means they get renewed or -- as the current charters end, I think it's too early to say.

The Vitoria and the Niteroi are early through their charter periods. We are looking to do some enhancements on those vessels. And we'll see how those enhancements play out as we come to the end of the charters. But I don't think we're -- I think we're through the period that we went through probably over the last 48 months -- 12, 24 months of renewal of our charters. I think we're through that. And -- whereas some of our competitors are renewing at the moment, I think we're in a slightly different position.

Amy Wong - *UBS AG - Analyst*

Thanks, Julian.

Operator

A question from Mick Pickup from Barclays. Please go ahead.

Mick Pickup - *Barclays - Analyst*

Good morning. It's Mick here. Obviously most of my questions have already been asked. Just a quick follow-on though, however, to Fiona's question on the capacity within your business. I think on the slide you say you've got 38,000 people here relative to December '06. And, as far as I remember, it was about 22,000 back then. So your headcount's up by 70%. Your revenues over that time are up by about 30%. Now, I appreciate a lot of that is the more intellectual capital. You're putting -- less risk you're putting into projects. But could you just give me an idea of where you think the people intensity in this business is going on projects?

And, secondly, how much of that 38,000 is building for a future rather than coping with what you've got today?

Thierry Pilenko - *Technip - Chairman and CEO*

Well, the second part of the question is a little bit difficult to answer but definitely we have decided to have a profile which is getting very early with the client at the conceptual stage, at the engineering stage, at the FEED stage. And this is where we think developing the technology, understanding the client, getting into a relationship at this very early stage is critical for the long-term success of our Company. It has been critical for our success and will be critical for the long term. That's the first element which is very important, we are an engineering Company and we will remain an engineering Company so intellectual capital is extremely important.

However, on the other end of the delivery, the quality of the people who deliver the products in our factories or will install those products or others in the field, whether it's offshore or onshore, is also extremely critical. So I would say it is very important that we keep that in mind, because we want to be a Company with a very important intellectual capital. And this is the area where we're going to be working on today's projects but also in the future, like we did, for example, to design the flexible pipes for 3,000 meter water depth. It took a lot of human -- very highly qualified human resources.

This is also what we do when we select with the client or we help our clients select the technologies from our petrochemical or refining business. But at the same time as we are involved into long-term EPIC project and [LSTK] project we want to make sure that at the call phase, when we deliver, we deliver high quality.

Now, when it comes to who are the people working on these long term, what I can tell you is that we spend about $50m plus into new technologies (technical difficulty) R&D. This is new technology as well as sustaining of existing technology. This is probably, in our sector, we are probably one of the biggest spender.

It's also because we have a profile which is slightly different. We obviously do manufacturing. But, again, we are trying to position ourselves at the very early stage. So we are developing a lot also in the area of consulting, again, at the early stage, in the conceptual stage, when we propose solutions to our clients which are completely independent from the products that Technip has, which -- we do that through one of our affiliates which is called Genesis. And this is, again, a way to prepare for the long term and to position us.

But it's very hard to give you a number of how many people are working on innovation versus the bread and butter. Because, in fact, it's going into a lot of details here, but we do recognize and reward people every year for innovation. And I would say most of the people that are rewarded are actually people who have found something very innovative as part of a project. So I would say then it's very hard, like other businesses where they have a very well-identified R&D resource versus execution resource. For us innovation happens across the board.

Julian Waldron - *Technip - CFO*

Mick, just in terms of building the future, one data point, and I appreciate it's isolated, but one of the fastest-growing areas for us in terms of recruitment has been Asia Pacific.

And I think 50%, 60% of the hires we've taken into Kuala Lumpur over the last 18 months or so have been young. Not necessarily fresh-outs, but graduates and people in the early phases of their career. And in that part of the world, we felt it's quite -- it's been quite important to try and bring people early into the organization. And grow them through the organization. There are other places that have been the same. But that's been quite a striking asset by the people in Kuala.

Mick Pickup - *Barclays - Analyst*

Okay. Thank you very much. And thanks for an uneventful quarter. It's quite a change.

Julian Waldron - *Technip - CFO*

We'll do our best to continue.

Mick Pickup - *Barclays - Analyst*

Cheers.

Operator

A question from Ryan Kauppila from Citi. Please go ahead.

Ryan Kauppila - *Citi - Analyst*

Thierry, you sounded pretty optimistic on the outlook in North America. I'm just wondering what you're viewing as the biggest bottlenecks in that market. And as you see it today, does it look like an acceleration in some of the larger project sanctions will happen over the next 12 to 18 months?

Thierry Pilenko - *Technip - Chairman and CEO*

That's a good question. I did say that we start to see that first wave of projects being sanctioned into EPC. And we are probably going to see a few more over the next three to six months, because we know that some decisions have been made. The biggest bottleneck in that market will not be engineering resources. It will be construction resources. So I think the phasing of the project will be highly dependent on the availability of the construction resources.

So we see a market which is definitely picking up. The first wave includes refinery upgrades. And now refineries are working at very good capacity in North America. And they are actually exporting a lot of refined products now, which is very good news for this market and for the investment in refining. But there are still some upgrades to be done, petrochemicals -- and later on, as I said, we will see gas to liquid and LNG.

So today we have identified both in the US as well as Canada a wave of projects around this. And I think there are some investors who are, I wouldn't say waiting, but are looking at how this wave is going to build up. And what are the opportunities to come as a second group of investors. So we do know that foreign investors are looking at the US to build plants as part of the second wave of projects.

It's quite interesting to hear that although China is a very cheap cost of manufacturing or building plants they have started to look at maybe not building in China, to try and see if they can build in North America where the gas is going to be cheap for the foreseeable future. So we are going to see that in that second wave.

But whether we talk about the first wave of projects or the second wave of projects, I think the biggest bottleneck is going to be construction resources. Today it's okay. The first movers are going to have quality resources. But pretty soon we are going to see tightness in the construction-resource market. This is why we will have to be extremely careful. And our clients will have to be extremely careful when they build up the teams to execute these projects.

Ryan Kauppila - *Citi - Analyst*

That's great. Thank you very much.

Thierry Pilenko - *Technip - Chairman and CEO*

Well, this was the last question. So thank you very much. And have a good day.

Kimberly Stewart - *Technip - Head of IR*

Ladies and gentlemen, this concludes today's conference call. And 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 Technip Investor Relations team should you have any questions or require any additional information.

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

Operator

Thank you for your participation today's results conference call. The replay will be also available by dialing 0033172001500 or 00442033679460 or 0018776423018, using the confirmation code 282183 and dash. The replay will be able -- available for two weeks.

You may now disconnect. Have a nice day.
