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## PRESENTATION

**Operator**

Good morning. My name is Deborah, and I will be your conference operator today. At this time, I would like to welcome everyone to the TechnipFMC Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note that today's call is being recorded. Thank you. Mr. Seinsheimer, you may begin your conference.

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**Matt Seinsheimer** - *TechnipFMC plc - VP of IR*

Good afternoon, and welcome to TechnipFMC's Second Quarter 2018 Earnings Conference Call. Our news release and financial statements issued yesterday can be found on our website. I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements. Known material factors that could cause our actual results to differ from our projected results are described in our most recent 10-K, most recent 10-Q and other periodic filings with the U.S. Securities and Exchange Commission, the French AMF and the U.K. Financial Conduct Authority. We wish to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. We undertake no obligations to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

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

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Thank you, Matt. Good morning, and good afternoon. Thank you all for participating in our second quarter earnings call. Q2 represents another strong quarter for our company. Total company revenues were $3 billion with adjusted EBITDA of $377 million. All 3 business units delivered solid results, including a strong sequential EBITDA margin improvement in Surface Technologies, which serves as a good example of our execution focus. Total company inbound orders improved to $4.2 billion. Onshore/Offshore inbound of $2.3 billion was particularly notable, driven by new project awards as well as additional work on existing projects.

Taking a closer look at inbound orders. The second quarter represents our third consecutive quarter of order growth and our highest order intake to date as TechnipFMC. Total company book-to-bill was above 1 for a second consecutive quarter, driving sequential growth in backlog to $14.9 billion. The improvement in Onshore/Offshore has been significant. Backlog now stands at $8.3 billion, an increase of 30% since year-end.

Operating results in Surface Technologies recovered as anticipated from the weaker first quarter performance, delivering adjusted EBITDA margins of 18.1% in the period. This segment resolved the transitory issues faced in the prior quarter and continued to benefit from strength in the Americas, which accounted for over half of segment revenues in the quarter.

Activity in the U.S. land market continued its steady upward trajectory during the quarter, with well completion activity, notably robust and outpacing the increase in drilling activity. Also in the quarter, Shell announced the early start of production from the Kaikias development in the Gulf of Mexico, the industry's first full cycle iEPCI™ project. Production was achieved 1 year ahead of schedule, with a project breakeven below $30 per barrel. Working with our long-term partner Shell, our goal was simple: To improve project economics and accelerate time to first oil. Our collaborative approach included early engagement to simplify the field architecture, the use of flexible jumpers for greater well dispersion and equipment redesign using Subsea 2.0™ technology to enable fast-track installation. Kaikias serves as a great example of what can be done when utilizing a fully integrated approach for Subsea developments.

As we turn to the broader market opportunity set for Subsea, we are encouraged by project award momentum and the current level of client engagement and project tendering. We have updated our Subsea opportunities slide to reflect our latest view of the next 24 months. In this updated slide, 5 projects were awarded and have been removed. Six projects have been added. The new opportunities dispersed across South America, West Africa and Asia Pacific. In aggregate, the economic value of the market opportunity more than replenished with this update. But this is not the entire market opportunity set. There's a significant opportunity for smaller awards below $250 million, including brownfield and Subsea tieback projects. And there are additional projects beyond this list that represent fully integrated opportunities that are unique to TechnipFMC, a subject that I will address more directly in comments to follow.

Year-to-date, over 25% of our Subsea order intake has come from iEPCI™, in line with our guidance for the full year. And we continue to expect that over half of our order inbound will be direct awards associated with Subsea services, alliance partners and iEPCI™ projects.

In the face of successes like Kaikias, clients are acknowledging the benefits from our early engagement, technology-enabled iEPCI™ model. Many in our industry are now talking about integration but as Slide 7 indicates, the benefits to the operator are highly dependent on the degree of project integration. Full integration requires early engagement at the FEED stage in order to optimize field design and remove interfaces and schedule waste. And it requires having all capabilities under one roof to manage the trade-offs inherent in optimizing solutions. We know this because we experienced this friction as alliance in JV partners prior to our merger. The lack of a single fully integrated entity plus the absence of early engagement provides limited opportunity to achieve structural cost savings. In this bundled approach, the suppliers have no commercial incentive to eliminate scope, reduce vessel days or invest in the installation techniques that are required to drive sustainable improvement in project economics. But regardless of the levels of integration for any one project, the trend is clear. The market is rapidly moving towards greater Subsea project integration, both in terms of the volume of projects and the average project size. And as operators move further up the integration curve, there is much greater potential. We've already demonstrated this success with our first full cycle iEPCI™ delivery on the Kaikias project. We've also taken integration to the next level with Energean's Karish and Tanin project by integrating Subsea with a host facility, allowing us to capture more project scope than ever before. And we remain on track to deliver many more successful references from our growing iEPCI™ project portfolio.

Our philosophy is simple. To create real and sustainable improvements in project economics for our clients to enable more investment decisions through the cycle.

Driving returns is our ultimate goal. So we will prioritize our assets and resources towards those opportunities that generate the most value for our clients and for TechnipFMC.

Turning to Onshore/Offshore. We continue to see good growth opportunities in both process technologies and LNG. Global demand for petrochemical products continues to grow, and we are experiencing significant early activity for technology definition and selection across most major markets. Combined with favorable feedstock to product differentials, this is driving new opportunities, including the potential for a second wave of worldscale ethylene crackers. Our process technologies portfolio has grown over 50 technologies, with strong market positions in ethylene, hydrogen and others.

We have several commercial models that allow us to license our technologies and provide proprietary equipment around them. Importantly, these technologies drive differentiated EPC opportunities for our company.

We have had solid backlog additions for our process technologies business year-to-date, accounting for approximately 10% of our Onshore/Offshore inbound. These include 2 gas cracking furnaces to support the third phase expansion at NOVA Chemicals Corunna project in Canada, where we provided the process technology and are also in the consortium for the EPC contract.

In the hydrogen generation unit for HPCL in India, announced just last week, where our hydrogen technology was a key factor in us winning the project.

We are seeing particularly strong opportunities in ethylene, a value chain which TechnipFMC has a leading market position. The recent announcement by Motiva to select our ethylene technology for its worldscale petrochemical complex in the United States is indicative of this trend.

We continue to invest in our broader technology portfolio through alliances, acquisitions and R&D.

Another key component of our strategy for Onshore/Offshore is the expansion of high-value services, including project management consultancy or PMC. Indicative of this strategy, we can point to our most recent PMC opportunity in the United States, where TechnipFMC is well positioned to secure a substantial PMC reimbursable contract in the downstream sector.

And we're seeing growing activity in LNG. LNG is a core competency of TechnipFMC, and we are a leading EPC player and technology provider in this segment. We believe that the next wave of LNG projects is moving forward as evidenced by current FEED and tender activity. We are seeing prospects emerging in all regions: the Middle East, Russia, Africa, Asia Pacific and North America, including many brownfield expansion projects, where we benefit from an incumbent position.

Early engagement can be key to success on any project. Just last month, Sempra LNG & Midstream announced the selection of TechnipFMC as EPC contractor for the Energia Costa Azul LNG project under development in Baja California, Mexico.

We will perform FEED and other preparatory activities as Sempra advances towards project FID. In addition, the important FEED work for the Novatek Arctic LNG project continues to progress well, and we are beginning FEED work on the Nigeria LNG Train 7 expansion project.

Putting this all together, TechnipFMC provides considerable leverage to the 3 major energy investment themes: Subsea, LNG and unconventional resources. In Subsea, we are the market leader, and we are demonstrating real success as the industry's only provider of fully integrated solutions and services.

In LNG, we are a clear market leader, having delivered over 20% of global operating capacity, and we are currently executing several of the industry's key projects and front-end engineering studies.

And in unconventional resources, we have leading market positions in product and services that are instrumental in supporting ongoing efficiency gains for complex well completions.

Through our unique business model, our differentiated technologies and our execution capability, we are well positioned to capitalize on the industry's best prospects for growth.

I will now turn the call over to Maryann to discuss the financial results in more detail.

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**Maryann Mannen** - *TechnipFMC plc - Executive VP & CFO*

Thanks, Doug. We delivered solid operational performance in the quarter. Total company adjusted EBITDA was $377 million. Adjusted EBITDA margin is 12.7% despite the forecasted revenue decline and on track to reach 2018 objectives as we have outlined.

Looking at margins by segment. Although lower, Subsea was quite resilient despite a significant revenue decline in a particularly strong margin comparison. Onshore/Offshore continue to sustain robust margin performance on persistently strong project execution. And in Surface Technologies, we delivered a significant increase when comparing to the prior year quarter, driven by higher activity levels in North America and further improvement in international markets.

The sequential performance was also much improved after overcoming transitory issues experienced in the first quarter.

Adjusted diluted earnings per share from continuing operations in the quarter were $0.28 when excluding after-tax charges and credits of $0.05 per diluted share. After-tax charges and credits in the period totaled $25 million. We have provided schedules that accompany our release, which detail these items. As a reminder, our guidance excludes the impact of certain items. These items of significance impacted the quarter included the following pretax charges: $24 million or $0.04 per diluted share of foreign exchange losses included in corporate expense and $49 million or $0.11 per diluted share related to the increase in the liability payable to joint venture partners included in interest expense. When excluding the impacts of these discrete items, the effective tax rate for the quarter was 31%.

Turning to Slide 11. I will provide a few more details around segment highlights. Subsea revenue declined 30% from the prior year quarter, driven by lower project activity in Asia Pacific, Africa and North America. However, revenues in the quarter benefited from flexible's activity for Petrobras, continued work on Total Kaombo and Woodside Greater Enfield, plus the growing contribution from integrated projects such as Equinor, Trestakk, Energean Karish and Tanin and VNG Norge Fenja.

Subsea reported an adjusted EBITDA margin of 15.7%, down 607 basis points against the prior year quarter on lower revenues, offset in part by merger savings and other cost-reduction initiatives achieved.

Adjusted EBITDA also benefited from the successful conclusion of key project milestones, although somewhat less significant than the prior year quarter.

We also announced in the period the delivery of the Skandi Recife flexible lay and construction vessel. Owned in conjunction with our joint venture partner, we have begun work under an 8-year charter contract with Petrobras for work in the Campos, Santos and Espírito Santos basin. Inbound orders were $1.5 billion in the quarter, resulting in a book-to-bill of 1.2.

As our full year guidance has suggested, Onshore/Offshore revenue declined 26% versus the prior year quarter as we moved closer to completion on major projects, primarily Yamal LNG. Project activity outside of Yamal continues to grow, driven by higher activity levels related to several large projects, including Jebel Ali Refinery, SOCAR Petrochemicals and Petronas RAPID project.

Adjusted EBITDA declined 16% from the prior year quarter, outperforming 26% reduction in revenue. We experienced growth in adjusted EBITDA beyond Yamal, although the project is still a significant contributor. Adjusted EBITDA margins of 12.7% were up 238 basis points versus the prior year quarter, with improvement across all regions. We saw continued strengths in Onshore/Offshore inbound during the quarter, where orders more than doubled versus the prior year quarter to $2.3 billion.

Segment backlog has grown sequentially in each of the last quarters, ending the second quarter at $8.3 billion.

Moving to Surface Technologies. Revenue increased 34% versus the prior year quarter, driven by the significant increase in North America activity, with strong demand for hydraulic fracturing services, wellhead systems and pressure control equipment and services. International revenue also increased versus the prior year quarter, benefiting from higher volume of aftermarket work.

Adjusted EBITDA margins of 18.1% increased 613 basis points versus the prior year quarter, with margins improving in both the Americas and international businesses. We benefited from good volume leverage on an improved cost structure in North America, partially offset by continued pricing pressure in some international markets. Sequentially, Surface Technologies had a strong recovery from the transitory issues we faced in the first quarter, providing support to our full year outlook. In addition to the growth in North America, we experienced higher aftermarket activity in international. Backlog for Surface Technologies ended the quarter at $415 million.

Turning to cash flow. Several items impacted our results in the period. Cash flow from operations was a negative $289 million. The decline was primarily a function of working capital outflow of $477 million, driven by timing of project-related activity. Clearly, in the quarter, we saw our working capital uses greater than we had estimated. This is largely due to the timing of awards for certain projects tied to the $5 billion of Onshore/Offshore projects we have been tracking, which have not been received on the anticipated schedule. The award of these specific projects will have positive impact on working capital when inbound.

Additionally, we had outflows for certain items that will not be repeated in the back half of the year. Beyond the operating line, capital expenditures were $82 million in the quarter. There were also several discretionary items impacting the quarter. We distributed a total of $250 million to shareholders, including $134 million for share repurchase, our largest quarterly spend to date, and $120 million for the payment of quarterly dividends, reflecting the timing of cash payment for both fourth quarter and first quarter distributions. We also incurred $41 million related to acquisitions. In total, these discretionary spending items were $295 million in the period. Importantly, these items are supported by a very strong balance sheet, our net cash balance stood at $1.7 billion at quarter end.

Turning to Slide 13. The company backlog ended the quarter at $14.9 billion. As the backlog schedule illustrates, we have very good revenue coverage for the remainder of 2018. For Subsea, we have more than 90% coverage for the midpoint of our full year guidance when including first half results and the anticipated revenues from Subsea services. Most of our services revenue is recorded when activity is completed.

For Onshore/Offshore, we have sufficient revenue backlog to meet our revised guidance for 2018, which has been increased to a range of $5.6 billion to $5.9 billion. When comparing to the revenue scheduling provided in the first quarter, we see a 36% increase in the revenue schedule for 2019 and an even more significant change to the 2020 and beyond. Medium-term revenue visibility continues to improve on the strength of orders for the first half of the year. Subsea backlog for execution in 2019 and beyond has increased more than 50% since year-end. Clearly, we are demonstrating good success in rebuilding the backlogs, ultimately transitioning the company back to a period of growth. And we have significant project activity not included in the recorded backlog because of project structures. That will create future income beyond the visible revenue streams. We are working on a few large projects where we only hold the minority ownership positions.

As illustrated in the backlog visibility slide, the pro forma backlog associated with these projects now exceeds $3.4 billion and it serves as a basis for growth in our equity and affiliates income over the coming years. Importantly, this income stream is incremental to the opportunities that we have shown in our backlog disclosures.

Turning to guidance. We are updating our expectations for Onshore/Offshore to reflect both the incremental work awarded for 2018 as well as the continued strengths in project execution. During our first quarter update, we indicated that revenue for Onshore/Offshore was trending towards the high end of our previous range of $5.3 billion to $5.7 billion. We are now increasing that expectation to a range of $5.6 billion to $5.9 billion for 2018. Additionally, we are increasing our margin guidance to at least 12% versus our previous guidance of at least 11.5%.

For Subsea, the strength of our first half results give us further confidence that we will deliver on our full year commitments with no change to our expectations for the remainder of 2018.

In Surface Technologies, the sharp sequential recovery in the second quarter results also supports our previous outlook for the remainder of the year. When we look to the second half, we recognize that the pace of improvement in North America has the potential to slow due to reductions in takeaway capacity in the Permian, along with uncertainties related to tariff and price inflation.

In summary, our second quarter earnings supported our updated outlook. Total company inbound orders of $4.2 billion were our strongest yet at TechnipFMC, with orders exceeding revenue in all segments. Backlog continues to provide solid coverage for 2018 with improving visibility for 2019 and beyond, particularly in Onshore/Offshore. While working capital continued to be impacted by project maturity, new project award should be generating improvement going forward. Importantly, our execution remained very strong as evidenced by our good operating performance in the quarter.

Momentum in FEED activity and project tendering continues to trend positively supporting an improving outlook across our end markets. Project selection remains a top priority as targeting the right projects and driving early engagement are critical factors that influence our project success. We remain focused on delivering best-in-class services, solutions and project execution. We have leveraged to market where we see the greatest growth opportunities, namely deepwater, LNG and unconventional, and we will prioritize our assets and resources towards opportunities that generate the maximum value for our clients and for TechnipFMC.

Operator, you may open up the call for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Sean Makem with JPMorgan.

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

So, Doug, maybe, starting with Subsea. I was hoping you could give us a sense of your visibility on second half '18 margin progression given the first half, you're 110 basis points above the full year guide. Maybe just what's going to held you back in terms of lifting that margin guide for the full year?

**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Sure, Sean. So as you know, there's a lot of puts and takes, and we have to consider what's in our backlog. Some of the new projects as well as the projects that we're completing. In the second quarter, we reached several key milestones on some very important projects as we indicated in the press release. And when we look forward to the second half of the year, we remain even more confident in our full year guidance of achieving 14%.

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

Okay. And so another point, I think, that's on investor's minds is with respect to working capital. On the last call, I think, the message was that you're expecting working capital to be neutral in terms of cash impact, 2Q through 4Q of this year for the full year being modestly, let's say, below the cash trough from last year, a little over $500 million. Maryann, would you mind giving us an update of how you see that progression in the back half and any other moving pieces that you'd like to highlight there?

**Maryann Mannen** - *TechnipFMC plc - Executive VP & CFO*

Yes. Sure, Sean. Thank you. So clearly, in the quarter, our estimates were exceeded in terms of uses. There's a couple of key reasons for that. First, as you can imagine, we're managing many, many, many projects and being able to get it completely right quarter by -- quarter-to-quarter is often a challenge. Overall, what we said or what I was -- what I said last quarter was that I thought the first half of the year, both Q1 and Q2, would see uses, and we would see recovery in the back half of the year. We talked about that number in a range of $500-plus million. And you can see, we exceeded that in the first quarter. We were expecting to see some awards, pretty significant awards, as I mentioned tied to that $5 billion of projects, Onshore/Offshore, that would have had significant contribution had they been awarded. To the extent that those contracts get awarded in the back half of the year, we will see some recovery of working capital. In addition, we had some items in the period in the first half that are non -- I would say, that won't repeat in the back half of the year and some timing around some other projects. So the way that I would characterize it is clearly, we see path in the back half, where operating cash flow would be positive in the back half of the year.

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**Operator**

Your next question comes from James Evans with Exane. I'm sorry, your next question comes from Bill Herbert with Simmons.

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**Bill Herbert** - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

I'll stick with Subsea margins here for a second and more directly, Doug, a similar question I asked you on the Q1 call. Visibility with regard to Subsea services, we think that, that would start inflecting pretty soon here given the sustained strength in Brent. Do you see that as a second half event or do you see that more as a '19 event?

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Thanks, Bill. And indeed, as indicated last quarter, we continue to see a good progression in our Subsea services business, particularly, when it comes to some increased operating expenditures, requiring customers to -- into their Subsea wells to run diagnostics or to do mechanical or remedial services inside of the wells. As you know, we're the leader in providing access to Subsea wells through our Riserless Light Well Intervention technology and our footprint. On top of that, we get the opportunity to, in many cases, do refurbishment of the equipment, or while that wellbore activity is being done the trees are often returned to our custody to be able to do maintenance inspection and repair on that equipment. As well as our integrated life of field services, where we're doing predictive maintenance through the extensive digital platform that we have on the seafloor. So for all those reasons, we continue and have and will continue to see a recovery, and we are seeing some of that occur in the second half of the year. It's important to note, tied to Sean's earlier question as well, we are in a situation where we're seeing a significant improvement in our Subsea inbound. Orders are tracking extremely well. We will and we've committed over a year ago, and are remain committed to ensuring that we retain the capability and the competency to be able to ensure that we can deliver world-class service on that increasing inbound. So, if you will, there's a bit of a transitory period between the inbound and the conversion of that into revenue, but we will carry the resources necessary to ensure that we can provide world-class service for our clients.

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**Bill Herbert** - *Simmons & Company International, Research Division - MD & Senior Research Analyst*

Okay. And Maryann, obviously, On/Off margins have been super strong for reasons that we know, thanks mostly to Yamal. As we're getting this surge and impressive order intake, do you have any thoughts with regard to the normalization path for On/Off margins over the next several quarters, not only second half but just as a glimpse into 2019?

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**Maryann Mannen** - *TechnipFMC plc - Executive VP & CFO*

Yes, thanks, Bill. So for the back half of the year, obviously for 2018, as you can see, we've taken the margins up another 50 basis points to 12% on a full year basis. So we continue to see good solid strong performance in the back half of the year. You know that's just not a one single project.

We've got good project execution throughout. As we get to '19, as you can see, our backlog is improving by other projects that are non-Yamal. Having said that, we still have more work to complete on Yamal. In 2019 that project is likely not to complete until -- till the end of 2020 and plus as we complete other key milestones. So our margin performance in '19 will still have the benefit of very strong execution and despite the fact that we've got some other projects, still good execution coming from Yamal. So a little early for us to be giving margin guidance, but we certainly have good opportunities set to keep margins in Onshore/Offshore in solid place for 2019.

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**Operator**

Your next question comes from David Farrell.

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**David Farrell** - *Macquarie Research - Oil and Gas Research Analyst*

Two questions for me. It's a bit unfair, but could you just maybe explain why if Kaikias was so good for Shell? The same client in the same region decided to split Vito up. And then, the second question is around Process Technologies. I'm just wondering what opportunities you're seeing from IMO 2020 in relation to refinery upgrades?

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Sure. So no such thing as an unfair question. We're very proud of, obviously, the results from Kaikias. And I'm sure, you have read how pleased Shell is as well. I remind you we did receive following Kaikias a follow-up order and that was on the Gumusut integrated EPCI award that we announced last quarter. As you know, Vito was being tendered, the same time the Kaikias was being completed. And that experience had not fully been felt by the client. We remain confident that there will be additional iEPCI™ opportunities for Shell in the future, both in the Gulf of Mexico and beyond. In regards to the process technologies, we certainly are seeing a benefit. And we have announced and hopefully, will be announcing additional refinery upgrade projects, which we can benefit from the technologies that we have in our portfolio as well as some of the changes in regulations associated with refining.

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**Operator**

Your next question comes from Jud Bailey with Wells Fargo.

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**Jud Bailey** - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Doug, question for you on just trying to get little more color, perhaps some of your thoughts on Subsea orders over the back half of the year. And I'm curious to get your thoughts on -- there's a lot of different projects out there that seem to be moving ahead. I know you guys put 5 new ones on the board on your sheet or 6 rather this quarter. How do we think about, perhaps, the mix of size of project and whether integrated or not, midsize, large? How do you think about the direction in just overall kind of mix of orders in the back half of 2018 and the timing I guess?

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Jud, thank you for the question. Honestly, a little bit of all of the above. There's a lot of activity going on right now. We've talked about our integrated portfolio, some of which are visible to the market, many of which are not visible to the market. They're maturing through the integrated FEED stage, which means they're approaching the opportunity to move into the integrated EPCI space. And there'll be more to report on that in the coming quarters. In regards to the size of projects, as you saw once again, I think our Subsea inbound orders exceeded expectations. A lot of that was the unannounced awards, which included a significant amount of direct awards from our alliance partners as well as smaller awards. And those will continue. We're doing a lot of work helping our clients optimize particular field architecture that allows them to bring back tie -- or tiebacks into existing hosts. And you may have heard in my prepared remarks one of the things that I talked about when I talked about the Kaikias, was I talked about the ability to be able to use flexible pipe in order to change, if you will, the geographical dispersion of the wells versus the manifold. That's quite unique to our company because of our in-house capabilities and our ability to be able to design in that way. And that will unlock additional opportunities for us. Large greenfield developments are absolutely in the latter stages of tendering. As you know, it's -- I'm always cautious to predict a quarter or even a half when some of those projects will go forward. But there is no question that they are mature. Many of them, the commercial lenders have been put in place. Technically, they've been qualified, and it's a question of the FID and the selection. Geographically, you're seeing more and more activity return to Brazil. You're seeing activity -- quite a bit of activity in Africa. And as we had a very strong fourth quarter in the North Sea, we expect additional activity in the North Sea as well. We talked in the past about some of the emerging countries for our industry being Guyana with the ExxonMobil Liza project in the Mozambique, with ENI and the Anadarko opportunities, we're active in both, as you know, and we look forward to additional phases and additional awards as those 2 countries move forward as well. So we're very active on the -- if you will, on the front-end engineering side, we're very active on the tendering side and most importantly, we're very active on the iEPCI™ side.

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**Jud Bailey** - *Wells Fargo Securities, LLC, Research Division - MD and Senior Equity Research Analyst*

Okay. Great. I appreciate the color there. And my follow-up, Maryann. If I could -- I wanted to just follow-up on your answer to Sean's question earlier. I believe you indicated you believe that operating cash flow will be positive in the second half of the year. I wanted to just clarify that you were referring to cash flow, not working capital, number one and number two, would you expect operating cash flow to be positive for the entire year and not just in second half of the year?

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**Maryann Mannen** - *TechnipFMC plc - Executive VP & CFO*

Yes. So -- sure, Jud. My comment was made specific to operating cash flow. Yes, I did not give specifics around working capital. We expected to be in the back half. Obviously, some certain elements that I just talked about would need to come to fruition if the timing of those projects without. That would present a challenge to us. But certainly, in the back half of the year, we will expect operating cash flow to be positive and therefore, could be for the full year, yes.

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**Operator**

Your next question comes from James Evans of Exane.

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**James Evans** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

James Evans, Exane BNP Paribas. I want to ask a little about Brazil if I could. I mean, it's really promising to see a few more projects popping up in the region. I just wondered if you could talk a little bit more about how you're bidding some of those pure Petrobras opportunities in terms of the SURF solution. Secondly, whether or when we might see Petrobras return to some of the equipment ordering, be it around trees or manifolds et cetera? And then just kind of combining those. Is there any signs of Petrobras more seriously evaluating the integrated model. I guess it must be a big strategic long-term target for you?

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Thank you very much, James, for the question. And again, yes, to all of the above. So we, as well, were very excited about the activity in Brazil, not just Petrobras. As you know, there's been a lot of activity by others in terms of investment than in terms of leasing. And we're doing a lot of work with many of the operators in Brazil, looking at their -- the best options for them to develop their assets. When you look at Petrobras, we are still executing on several of the large equipment awards that came previously. Those are very important to us, and we remain a key supplier, if not the preferred supplier, to Petrobras for that Subsea equipment. And we're -- we were just acknowledged -- actually, we were just acknowledged as the best supplier for Petrobras in that category. So we're very, very proud of that. Those awards are important, and we'll continue to satisfy those awards. With -- the -- maybe the slight nuance that we have to take into consideration is as Petrobras moves forward with some of the newer developments, where there is a different equity ownership structure and a different partnering structure that may -- they may or may not use equipment that is, if you will, from their prior orders and that may result in new equipment orders because of the change in the ownership structure of the assets. So there lies an opportunity that we're tracking very closely. In terms of the overall cadence, again, it's picking up, and we're doing a lot of front-end engineering work, and we're doing a lot of site visits, if you will, with many of the international operators as well, who are now very eager and very excited to ramp up their activity in Brazil. We are very well positioned in Brazil. We have, by far, the highest local content. We are almost fully vertically integrated in the country. We supply Brazil from Brazil, with a very strong Brazilian team that we're extremely proud of. And that's built a track record for our company. And we have done most of the Subsea developments that have been done in Brazil with Petrobras, and certainly, for those that have been done with other international operators in the country.

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**James Evans** - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Could I just ask, if there are any signs of them evaluating the integrated model Petrobras, in particular?

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Thank you very much for the follow-up. And I obviously should not have left that off of the first answer. So thank you very much. We feel quite confident that Petrobras will engage in an iEPCI™-type model. It may not be on some of the initial phases of some of the new developments. But we strongly believe that we will see an integrated tender in the future and that it could very well prove to be a very value added, a very significant way to create value and improve project economics, which could then become more standardized. So yes, we have been and are working with Petrobras on the application of an iEPCI™ model. I really don't want to say where or when because that's obviously a significant competitive advantage that we have.

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**Operator**

Your next question comes from Kurt Hallead with RBC.

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

Doug, I was wondering if you could provide us some color on the dynamics on the Subsea business in the context of -- you talked about iEPCI™, you talked about competitive advantages that FTI brings to the table. I would start saying that you've seen improving pricing and margins for those direct awards for example, and for those iEPCI™ projects, but could you shed some light on your ability to, maybe, maximize pricing or maximize margins and what it still may be a competitive environment for Subsea and how that's all playing out?

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Sure, Kurt. Thank you. So as indicated, over 25% of our activity that we -- our new activity that we've inbounded this year has been iEPCI™. That's important. Most of that is through direct award where we started the integrated FEED phase. We agree on an economical hurdle rate. And we optimized the project economics. And that's really what the customer cares about. It's not about lowest price or lowest unit costs. It's about the best project economic. And if you can sit with the client early in the phase of the development of the asset and show where you can create real, structural and sustainable improvement in project economics, not a discount, not a promise of increased rate of return based upon the 25-year incremental recovery rate, but real upfront savings, both in capital and then on the operating cost for the life of the asset. And most importantly that you can accelerate your time to first production. That really drives the project economics in a favorable way. That's a mature conversation. That's a conversation where you're really truly looking for a win-win. And everybody is focused on the project and on improving the project economics, not just on their own individual financial statement. As a result, everybody wins. The project is successful. Success creates additional success as I indicated on an earlier question that was asked. We have several repeat customers now in this category and that will continue to grow. It is important to point out, Kurt, that as I said in my prepared remarks, not all integrated projects are the same, and there is quite a bit of bundling going on out there. We really try to focus where we can create the greatest value and sustainable saving. And the only way that we found to get there was by creating TechnipFMC, which allows us to put the proper investment into the company to really create a full Subsea system, inclusive of the equipment, the installation and everything in between, to be able to drive real sustainable improvement in project economics.

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

Okay. That's helpful. Doug, I appreciate that. And maybe on the follow-up, coming in a similar vein on Onshore/Offshore. You talk about a pretty significant increase in opportunities for petrochemicals, and I think we all know what's going on with the LNG part of the business and the substantial increase in demand for additional capacity there. Given the limited number of players that can do what FDI does, wouldn't it stand to reason that the perspective margins you can get on future bookings could potentially keep the Onshore/Offshore margins at a higher level than maybe what initially was expected?

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**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Well, Kurt, what we have referenced in the past was that on a run rate of about $5 billion to $6 billion, you would -- we would expect to deliver on the higher end of kind of the industry average of margins of 4% to 6%. We did indicate at that time that, that did not include LNG awards. So we do expect and the LNG players are fewer. These are significant projects. And there is less experienced competition in that area. We are the leader in LNG, having delivered over 20% of the installed capacity and currently working on a significant amount of additional capacity from Yamal, Prelude as well as the Coral FLNG for ENI in Mozambique. So we have a lot of current activity, but we're very excited about the next wave of projects as you indicate. And yes, we would be very selective in those projects, where we can create the greatest value for the project for our customer, for ourselves and for our shareholders. We'll remain very selective, and we'll allocate our resources on what we think are those best projects for us. In many cases that will mean, we will be in direct negotiation, not only less competition, but in direct negotiation. That's a benefit you have when you're the incumbent. That's a benefit you have when you are very successful in one project and can potentially roll that skill competency knowledge on to the next project. So we're very excited about LNG. As I indicated in my prepared remarks, we're also very excited about process technologies. We have a very unique portfolio representing over 50 different technologies, some in which we have a leadership position, particularly, around ethylene. And you heard me talk a bit about our next wave of ethylene projects. This would be very good for our company as well.

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**Operator**

Your next question comes from Rob Pulleyn with Morgan Stanley.

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**Rob Pulleyn** - *Morgan Stanley, Research Division - Analyst*

I'll limit it to just one question. And I suppose no conference call would be complete without bringing up the Y word. I just have one question to Maryann. And that is, at the time of the Analyst Day, you indicated very hopefully that around $1 billion of cash in the balance sheet was owed to the joint ventures as part of that joint venture partner, as part of that profit recognition from the contract and also that upcoming working capital needs. I just wondered if you can give us an update on where that corresponding $1 billion stands today. Is it the same? Is it lower, is it higher? That's it.

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**Maryann Mannen** - *TechnipFMC plc - Executive VP & CFO*

Okay. Thanks, Rob. Yes, you're absolutely, right. Back in November, we took a snapshot of the project at that point in time and said, yes, it was right in the range of about a $1 billion. As you know, the project has continued to do well over the last 2 quarters. You've seen that we've incremented the interest expense associated with it. And we've also made some payments in the fourth quarter. We paid out about $80 million as you've probably seen in the cash flow statement, and again, this quarter another $124 million. So as we sit here today, based on the way that we see the project being executed, for the life of the project we're now below $1 billion, probably somewhere between $700 million and $800 million yet to go. So below the $1 billion now.

**Operator**

Your next question comes from Jim Wicklund with Crédit Suisse.

**Jim Wicklund** - *Crédit Suisse AG, Research Division - MD*

Doug, on the 25% of new activity being iEPCI™. Can you tell me how many customers, different customers does that 25% represent?

**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Jim, to the best of my recollection, I think we have 7, that we've announced -- 7 different customers that we've announced.

**Jim Wicklund** - *Crédit Suisse AG, Research Division - MD*

And I'm asking that just to know the breadth of adoption, if you would, of the fully integrated model, so that was really the question. And...

**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Yes. Well, Jim, if you don't mind, I'll add color to that. We had -- in a previous engagement, we had kind of dissected that a little bit and what you'll see us, it's pretty well geographically dispersed. One region that we had not yet secured an iEPCI™ contract was in Asia Pacific. We secured that last quarter. I had a great question earlier about Brazil and I hopefully answered it, where people left with a positive message that we would expect to see iEPCI™ penetrate the Brazil market, which would really give us, if you will, at that point global coverage of iEPCI™. We also broke it down between partners and nonpartners. There was actually a slightly more nonpartner than partner activity. We broke it down between tiebacks and greenfield opportunities. So you'll see, it's pretty well dispersed. And when I look -- more importantly, when I look under the hood and I look at what we have in the pipeline, in our integrated FEED studies, again, many of which are not available to the rest of the market because they're being done in a proprietary nature with the client. I would say that dispersion is about to grow even greater.

**Jim Wicklund** - *Crédit Suisse AG, Research Division - MD*

Okay. And best of luck on that. My follow-up, if I could. Relative to at least one of your peers, you're less on the geoscience end, where their less on may be the construction end or something. And you're talking about such a full breadth of integration of capabilities and most of the investors I talked to, their reaction to you guys these days is gosh I wish you'd sell Onshore/Offshore. Does your portfolio of what you own today, is that the full portfolio of things you need over the next 5 years to be the most effective, or do you need more geoscience front-end? Do you need to trim what you currently have? Can you talk about strategically where you expect to be over the next 3 to 5 years in that breadth of capability?

**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Sure, Jim. And I do want to point out, we have the industry's leading front-end capability. Period - Full stop. So no, we may not go all the way, if you will, to the front end, but we have what we need in order to do development projects and production projects. So we have the Genesis group as our agnostic, our pre-concept, concept in front-end engineering. And then, we now have -- as well, we now have the industry's leading integrated or if you will, vendor-based front-end engineering group as well. So very, very proud of that team. And they're the ones generating a significant amount of opportunities for our company, and I can't acknowledge them enough. When you look strategically at our, if you will, value stream, where there is white space, we do not see and the industry has not acknowledged that, that white space is necessary completing that white space if you will is necessary in terms of creating additional value to drive further developments of Subsea projects. So we're pretty comfortable, and we believe the industry has spoken that the integration that's required is the integration between what was formerly known as SURF and what was formerly known as SPS, which is now known as TechnipFMC.

**Operator**

Your next question comes from Bertrand Hodee with Kepler Cheuvreux.

**Bertrand Hodee** - *Kepler Cheuvreux, Research Division - Head of Oil and Gas Sector Research*

One question around the Subsea services because it's going to be probably next year an important part of your revenues. And do you see any momentum there? Because if I remember well, you were guiding by 2020 something around $1.6 billion and last year, it was $1 billion. So what momentum do you see there in Subsea services?

**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Bertrand, thank you very much for the question, an absolute critical part of our portfolio. As you know, we have over 50% of the Subsea installed base is TechnipFMC. It requires ongoing inspection, maintenance and repair. And as I said, as more and more Subsea wells go into Subsea wellbores need intervened upon that helps us even more. What we said is that, we said we'd have a 17% CAGR during 2020 I think the math comes out just a tad less than what you indicated. But still a significant growth opportunity for our company. You'll see us grow their both within our existing service line portfolio, which is the most expensive in the industry, but you're also going to see us grow through new additional service activities that we'll be bringing into the capabilities of TechnipFMC. So for sure, it's an important focus. It's one that we all spend a lot of time on. It is a direct award activity as it's kind of an OEM model. And we continue to demonstrate to our clients that we can achieve the absolute best-in-class service and provide that to our clients. The one area or the one big opportunity in that space is digital. We've done a lot of work there today. We offer today the industry's leading predictive maintenance, if you will, based upon Big Data. We do that for many of our customers today. But we're now looking at because now that we have the full capability, if you will, the full Subsea ecosystem, we now can extend that to a much greater footprint, creating even more value for our customers. So there'll be a lot more that you'll be hearing about how we're going to leverage our digital capabilities in our Subsea services to expand and grow that and achieve the rates that -- or the goals that we had set out previously.

**Operator**

The last question comes from Byron Pope with Tudor, Pickering, Holt.

**Byron Pope** - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Oil Service Research*

Just one question on Surface Technologies, Doug. As you think about the growth prospects, I think I heard you say in your prepared remarks that I think international might be half of that segment and it seems as though the growth profile might skew -- start to skew more towards international than North America over the next 12 to 18 months. So just wondering if you could speak to the opportunity set that you see in that segment in terms of growth going forward.

**Doug Pferdehirt** - *TechnipFMC plc - CEO*

Byron, thank you very much, and it was the last of the 3 that I was hoping we'll get a chance to talk about. As my last slide in my prepared remarks, we are the leader in Subsea. We are the leader in LNG. And we have a very strong position, particularly around completion optimization in Surface Technologies. So really do appreciate you asking the question. You're right, Byron. We all know the North America market has been strong. We know that it has some challenge optics if you will, going forward for a transitionary period. That being said, in the North American market, our business is asset-light, if you will and very mobile. So as -- if and when the customer base shifts, we can shift very quickly. As a matter of fact, we're kind of getting ahead of it as we speak. So that plays to our favor if you will. The international market is where we have historically had a leadership position, and we still have an intent to maintain and extend that leadership position in the international market. That as we talked about before has been a bit lethargic. It did not come around as quickly as we anticipated. You've heard others, who have reported before us about the fact that they're seeing, I'd say, even more than green shoots. They're seeing some real momentum in the international market. And that is absolutely positive for our company as we will benefit, if you will, proportionately. That's even more important to our Surface Technology segment, and we'll benefit from that as that international market recovers. That will probably be more of a 2019 effect, but we're very excited and look forward to that as well.

**Operator**

I would now turn the call back over to Matthew Seinsheimer.

**Matt Seinsheimer** - *TechnipFMC plc - VP of IR*

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

**Operator**

I would like to thank everyone for joining on today's call. At this time, you may disconnect.