Technip Energies FY 2021 Results & ESG Roadmap

Thursday, 3rd March 2022

Operator's Introduction

Operator

Good day, and thank you for standing by. Welcome to the Technip Energy's Full-Year 2021 Results Conference Call. Please be advised today's conference is being recorded.

I'd now like to hand the conference over to your speaker today, Phillip Lindsay, Investor Relations. Please go ahead.

Welcome and Disclaimer

Phillip Lindsay

Vice President of Investor Relations, Technip Energies

Thank you, Sarah. Hello to everyone, and welcome to Technip Energy's Full Year 2021 Financial Results Presentation. Today on the call, our CEO, Arnaud Pieton, and our CFO, Bruno Vibert, will present our business and financial highlights as well as the outlook. We will also present our ESG road map through a short video, and this will be followed by a Q&A.

Before we start, I would urge you to take note of the disclaimer and forward-looking statements on Slide 2.

I will now pass the call over to Arnaud.

Business Highlights

Arnaud Pieton

CEO, Technip Energies

FY 2021 Key highlights

Thank you, Phil, and welcome to our full year 2021 financial results presentation. 2021 was our first year as Technip Energies, and I am extremely proud of the way that our teams have delivered despite testing external environment. This was obviously no ordinary year for any of us. Despite the extreme challenges of the COVID pandemic, Technip Energies pulled off some real accomplishments and made an extremely strong start.

Let's start with the highlights. Operationally, our execution was solid throughout, and we achieved notable progress across our portfolio. We drove double-digit revenue growth year-over-year and margins at 6.5%, well ahead of our original guidance. With a book-to-bill of 1.5, we achieved nearly EUR 10 billion of order intake, of which 94% was outside of Russia, notably reinforcing our positions in LNG and ethylene market. This led to a near 30% improvement in our backlog to EUR 16.4 billion, equivalent to 2.5x revenues and providing clear multiyear visibility.

Based on the strength of these results, we are very pleased to announce our maiden dividend at EUR 0.45 a share, which is subject to approval at our Annual Shareholder Meeting in May. The dividend reflects our commitment to shareholder distributions and our confidence in our business outlook. Finally, in line with our plans and our promises, today, we have published our ESG roadmap and scorecard following an extensive exercise throughout last year. I will return to ESG later in my presentation.

Russia / Ukraine conflict: context for T.EN

Before continuing with the results presentation, let me say a few words regarding the situation in Russia and Ukraine, and put our exposure into context. The company is closely monitoring the situation. The safety of our people and the families is, as always, our first priority. We are providing today a financial framework that provides transparency around contribution from Russia.

As of year-end, 23% of our backlog related to projects under construction in Russia. This primarily relates to Arctic LNG2, which was awarded to us in 2019. In 2020 and 2021, nonetheless, our order intake from Russia has been no more than 6% to 8% of total orders, which will naturally lead to diminishing exposure to that geography. In terms of our P&L, in 2021, Arctic LNG2 was at peak volumes, and Russia accounted for around 35% of revenues. However, looking at 2022, the proportion of our estimated revenue from Russia, assuming business continuity, would have lowered to 20% of the aggregated revenues, and trend down further in 2023 and beyond. And in our EBIT terms, we expect any potential impact to be even less, as Russia was estimated to contribute only 15% of our EBIT.

As Bruno will discuss later on, what this means is that our 2022 EBIT margin should remain broadly in line with 2021 regardless of our exposure to Russia. This is supported by our long experience of managing contracts in difficult and complex environments. We understand the contractual mechanisms and protections, which are crucial to mitigate risk, and to sustain the performance of the company. Our contracting discipline ensures positive cash. And if the situation requires, for example, under suspension or termination situations, we would have the means to demobilize and pay our subcontractors, all without negative financial exposure.

We are financially robust with gross cash of EUR 3.8 billion and liquidity of EUR 4.5 billion. As evidenced by the dividend we are proposing today, our capital allocation framework is intact. And we clearly have the capacity and ambition to invest in our strategy.

In summary, Technip Energies is far from a pure Russian LNG play. We are global, geographically diverse company with an energy transition strategy. And this is more relevant than ever as the current situation will likely accelerate the energy independence and energy transition agenda, notably in Europe.

Key operational highlights

Turning to our operations. We delivered fourth quarter revenue growth of 10% year-over-year with an excellent performance from Technology, Products and Services, TPS, as well as continued momentum in project delivery. This really represents strong progress despite a challenging environment related to the pandemic with our operational teams continuing to rise to the challenge.

Strategically important awards in Q4 2021

Turning to our commercial highlights, the fourth quarter saw us secure multiple strategically important awards in both TPS and project delivery and notably in the domains of carbon capture, sustainable chemistry and ethylene. In the carbon capture market, our co-investment alongside our partner Shell for the Cansolv technology has started to yield success.

In the U.K., Technip Energies is leading a consortium alongside Shell and GE Gas Power for BP's Net Zero Teesside project, where we are performing a FEED competition for power station with 2 million tonnes per annum of carbon capture facility. And we are also supporting Shell on other projects in the U.K. and the U.S.

In addition, the Ghasha mega project in the UAE will see us design a carbon capture unit to be integrated into the development. This is yet another example of how traditional industries are also decarbonizing.

Turning to sustainable chemistry. Our PMC team has been awarded FEED and early EPC services for 100-million-pound Wastefront recycling plant in the U.K. with the capacity to process 80,000 tonnes per annum of used tyres. But we also entered into a strategic partnership with Wastefront to deploy their unique circular model globally. Our proprietary Hummingbird technology continues to enjoy success in the renewable fuels domain with FEED studies awarded by LanzaJet for 2 near identical sustainable aviation fuel units in the U.K. and the Netherlands.

Finally, in project delivery, the Borouge 4 project is a substantial EPC award and a particularly pleasing win as the strength of our technology offering yielded the strongest life of project economics. In summary, a positive conclusion to a very successful year, commercially, for Technip Energies.

Disciplined commercial approach reduces risk

Before handing over to Bruno, I want to say a bit more about our commercial model because it's really at the heart of how we manage the business, and what sets us apart. In addition to our well-known selectivity criteria, in the past year, we have added ESG as a key metric. This means that we assess a project's potential to integrate sustainable development and contribute to the Paris goals. We promote decarbonized solution in front-end design and tender phases, and ensure we are mitigating environmental impact. And we will scrutinize whether it meets our high compliance and government standards.

Turning now to our ground rules. Being engaged early, meaning T.EN executing the FEED study, gives us the chance to define and optimize a project's scope. This considerably de-risks execution as well as ensuring economic variability. And this early engagement is a prerequisite for us when bidding on the only large-scale EPC with lump sum content. Let me repeat: we will not enter into large EPC projects without it.

Beyond early engagement, it's all about discipline in our contractual negotiations. Every contractual framework has to be compliant with our risk management policy, and ensure that we are rewarded for the risk we take and protected from risks beyond our control. Supported by our asset-light model, at Technip Energies, there is no such thing as a must-win project. We continue to mitigate risk and exposure throughout the contractual phase, notably in procurement. When we sign contracts, we also sign back-to-back with our supply chain to ensure that a very large proportion of our costs are locked in at the point of signature. When it's not possible to do this, we use escalation clauses or go reimbursable. And we consistently monitor progress on our portfolio through monthly project management reviews, with intense focus on project progress and cash flows.

So in summary, our disciplined commercial approach reduces risks, ensures quality of backlog and provide consistency in performance. And we are confident this discipline will serve us well as we embark on our energy transition journey and enter new markets.

I will now turn the call over to Bruno to discuss our financial performance in more detail.

Financial Highlights

Bruno Vibert

CFO, Technip Energies

Solid all-round performance in 2021

Thanks, Arnaud, and good afternoon, everyone. So turning to the highlights of our financial performance for 2021, adjusted revenues grew by 11% year-on-year to EUR 6.7 billion, with strong activity levels overall, including solid growth for project delivery and an excellent performance for technology products and services, where revenues grew by over 20%. Adjusted recurring EBIT was EUR 431 million, equating to a margin of 6.5%. That's a 60-basis point improvement versus 2020, benefiting from strong execution on projects heading towards completion as well as a higher activity level and a favorable mix in TPS.

The bottom line is also very strong, with adjusted net profit 20% higher than the prior year at EUR 251 million. Adjusted order intake was EUR 9.8 billion, a significant improvement versus the EUR 4.3 billion in 2020, leading to a book-to-bill of 1.5. Net cash at period end was EUR 3.1 billion. In summary, a very robust first year for Technip Energies as an independent company.

Projects Delivery

Turning to our segment reporting and starting with project delivery, with the pandemic continuing to present challenges through the year, which included a patchwork of varying local COVID restrictions as well as constraints around logistics. 2021 was not an easy environment to achieve growth in a project business. So all credit to our teams, who helped to deliver an impressive 8% growth year-over-year to EUR 5.4 billion, benefiting from significant activity on Arctic LNG2 and the ramp-up of recently awarded LNG and downstream projects. This more than offset the lower contribution from downstream projects in a more mature phase.

Adjusted EBIT for the segment was EUR 342 million, equating to a margin of 6.4%, quite stable year-over-year. It is worth noting, however, that the 2020 margin excluded COVID costs, whereas in 2021, we absorbed such costs into our recurring EBIT. Therefore, on a like-for-like basis, margins were actually up about 50 basis points. Book-to-bill for the year was strong at 1.6%, and benefiting from the substantial award of Borouge in the fourth quarter as well as Qatar NFE in the first quarter. Backlog ended up 30% year-over-year. So overall, a robust and resilient performance by project delivery.

Technology, Products & Services

Turning to Technology, Products & Services: TPS closed 2021 very strongly, posting very high fourth-quarter revenue growth and double-digit margins. When combined with the momentum established in the first 9 months, the segment delivered full-year revenue growth of 23% to EUR 1.3 billion. Growth was broad-based, benefiting from good demand for engineering and PMC services, sustained process technology activity including licensing and propriety equipment, and good activity in Loading Systems, which continues to benefit from a sustained period of strong order intake.

EBIT margins improved by over 110 basis points to 9.2%, benefiting from higher activity levels overall and a favorable mix. Thanks to strong revenue and margins, EBIT in absolute terms increased by close to 40%. And encouragingly, TPS orders more than kept pace with the growth in revenues, leading to a backlog growth of 13% to EUR 1.2 billion.

Other key metrics and balance sheet

Turning to other key performance items across our financial statements, and beginning with the income statement, corporate costs were EUR 30 million, substantially lower compared to 2020, owing to a streamlined corporate structure and the achievement of our 20% cost reduction target for SG&A, which were mentioned during the last Capital Markets Day in February. At around 30%, the effective tax rate is at the low end of our full year guidance due to favorable earnings mix as well as discrete favorable returns to provision. Dividend distribution of EUR 0.45 per share. This fulfills our commitment to start a recurring and stable dividend. It also reflects real confidence in our future, given our backlog and the rich opportunities looking ahead. Our intent is to provide a sustainable dividend for our shareholders. And this distribution follows the path of a balanced and flexible capital allocation framework, which also includes investment for growth and balance-sheet strengthening.

Turning to balance sheet, with gross debt largely unchanged on prior quarters, strong free cash flow has enabled our net cash balance to grow to EUR 3.1 billion. Net cash is now greater than the net contract liability, which itself is stable to slightly down from the prior quarter.

Robust Free Cash Flow strengthens cash position

So let's dive now further into cash flows. 2021 was a very strong year with free cash flow reaching EUR 943 million. Three main factors are at play. Firstly, a consistently strong underlying level of cash flow generation through the year as we executed across our portfolio. Secondly, a significant working capital inflow of EUR 626 million relating to customer advances for recent awards, and key milestone achievements on other large projects as well as project-related working capital valuations.

Finally, capital expenditure of EUR 50 million where key items of spend included IT infrastructure to support growth and other investment supporting our energy transition strategy. With overall free cash flow equivalent to about 95% of our operating cash flow, this clearly illustrates yet again the asset-light nature of our business model. Excluding working capital movements, cash conversion from EBIT is also very high, above 75% for the full year.

And over the long term, we expect to be able to deliver a consistently high free cash conversion net of working capital in a 70-plus range. Below free cash flow, there is nothing incrementally material to what we disclosed in our Q3 report, and we ended the period with nearly EUR 3.8 billion of cash and cash equivalents.

2022 financial framework

Turning now to our financial framework for 2022, where we are providing a very transparent view of projected contributions in relation to revenue and EBIT from Russia. Given our backlog at the inception of the year as well as a diverse commercial opportunity set, we were well positioned to build on from the momentum established in 2021.

For revenues, excluding the contribution of Russian projects currently in execution, and which will be impacted by the ongoing crisis, we are projecting a range of EUR 5 billion to EUR 5.5 billion, a step up from the 2021 levels as shown earlier by Arnaud, notably due to the ramp-up of projects awarded during the year 2021. At the start of the year, we were projecting approximately EUR 1.4 billion for projects currently in execution in Russia, most notably Arctic LNG2, about 20% of the aggregate amount and a clear reduction versus 2021, demonstrating the rapid diversification of our portfolio.

In terms of margins, for activities, excluding Russian projects in execution, we see a margin of at least 6.5%, which clearly sets some continuity versus a solid 2021 performance, and a 60-plus basis points minimum increase versus the 2020 performance. Some moving parts to consider here. First, we expect to sustain momentum and our strategic growth focus in Technology, Products and Services, a segment that is accretive to group margins, as shown by the 9%-plus full-year 2021 profitability. Second, we continue to benefit from our SG&A cost base reduction and the lean cost structure. Third, on the product side, while good execution will provide benefits from projects maturing and moving towards completion, we will also have a proportion of our revenues from earlier phase projects such as Qatar NFE, Costa Azul and obviously Borouge 4.

The final factor is Yamal, where we expect the last remaining portion of the contract liability to unwind in 2022. We do not see any specific exposure arising from the current situation. On top of this projection, the estimated EBIT contribution from projects currently in execution in Russia is below EUR 70 million. This is approximately 15% of the aggregated expected EBIT, down from a 20% share in 2021. And this reduction is largely due to the declining revenue contribution as Arctic LNG2 revenues peaked in 2021, and will decline significantly in 2022, with the trend continuing in 2023 and beyond.

To conclude, on tax, the trend is lower than we originally anticipated for 2021. And we expect an effective tax rate on an adjusted basis of 28% to 32%. We believe we can sustain the effective tax rate on a similar range for the medium term.

I will now pass it back to Arnaud for the outlook and ESG.

Outlook & ESG

Arnaud Pieton

CEO, Technip Energies

Continued momentum in commercial outlook

Thanks, Bruno. Our business outlook and financial framework are further supported by an improving macro outlook, where we see a strengthening across the majority of our markets. While there is geopolitical uncertainty in the near term, our markets are rapidly evolving driven by several major global factors. Growth in energy demand with an increasing need for low-carbon and carbon-free energies, our traditional customers transforming and becoming active players in the energy transition, new clients and new business models are emerging, and political and economic agendas accelerating towards a carbon-neutral economy. Our core business remains strong, and increasingly requires innovation to decarbonize. Beyond traditional markets, a very different future lies ahead with massive electrification and ever-increasing momentum around circularity, clean fuels and carbon-free solutions.

This positive backdrop is translating into an exciting pipeline of opportunities for 2022 and 2023. In total, we are tracking more than EUR 60 billion of prospects outside of Russia. This includes a substantial pipeline of conventional market projects, the majority of which have a decarbonization element. The LNG opportunity set remains significant, and we believe we are aligned with prospects of high quality with strong economic foundations across many geographies.

Furthermore, we fully expect this opportunity set to grow as the current crisis will likely accelerate the energy independence and energy transition agenda. The world's climate ambitions are having great influence on our business. In 2021, we were awarded over 150 contracts of various sizes across the energy transition domain, up 45% year-over-year. While most of these are in study phase, many prospects are maturing. And we currently see a 2-year energy transition-related commercial pipeline, excluding LNG and excluding Russia, of EUR 8 billion. Further, we should see an inflection in energy transition FIDs in 2022 and an acceleration in 2023. Selectivity will be just as important in these new energy markets with opportunities in both TPS and project delivery, allowing for meaningful backlog additions in the next year.

In summary, a very positive outlook across the majority of our markets. Our ambition is really to sustain our leadership in our core businesses, and to be a leader in the new markets.

Together by T.EN

Turning now to ESG. At Technip Energies, we believe our role goes beyond business. Our purpose is to break boundaries together to engineer a sustainable future. We believe that to overcome the challenges the world is facing, we need to work more closely together. Thanks to our people, technologies, strong legacy and capabilities, we can help transform the energy world, we can foster a sustainable industry ecosystem, and really, we can unleash talent to resolve complex challenges.

ESG Roadmap Highlights

Our ESG journey has had active participation of our people and external stakeholders. Coming together with a shared sense of responsibility to design a robust and ambitious ESG map, Together by T.EN. Together by T.EN is driven by 4 strategic pillars: Drive solutions for the climate; Enable people to thrive; Lead responsibly; and Collaborate to impact. With these 4 pillars, we aim to translate the priorities of today into tangible actions for a better tomorrow. We will now play a short animation that illustrates our ESG priorities, targets and strategy in more detail.

[VIDEO PRESENTATION]

Key takeaways

ESG for Technip Energies is about acknowledging our responsibility to create value and positively impact, applied to our people and our stakeholders, which in turn contributes to our company's long-term sustainable success. Our ESG scorecard, a summary of which is presented here, is how we translate our commitment into actions, and the way we measure our ESG performance. The scorecard encapsulates targets across our ESG pillars, with most targets centred on 2025. Picking out a few, we are committed to cutting emissions at scale with robust reduction targets aligned to the Paris Agreement. We will commit to a science-based target in 2022, targeting a 30% reduction in Scope 1 and 2 emissions by 2025 and net-zero by 2030.

We will also report our Scope 3 emissions from 2023, and allocate 100% of our R&D spend to our energy transition strategy. As part of our diversity priorities, we are targeting 25% of women in leadership positions by 2025. This is broadly in line with the female population of our company, which will grow as we continue to onboard and retain 50% of women in our yearly graduate intake. We aim to reinforce accountability through implementing ESG-linked compensation for the Board of Directors, CEO, Executive Committee and all eligible employees. This way, we ensure that ESG matters are overseen at all levels of our organization.

Really with this presentation, we have summarized our ESG roadmap, but we have also published an extensive and detailed ESG slide pack that can be found on our website.

In summary, with our 2021 full year results, we delivered strong year-over-year growth in revenues, margins and free cash flows and excellent performance in a testing environment, and fully supportive of our first dividend. With the delivery of our road map, we are integrating ESG into our strategy and our business strategy, and will ensure that all future investments are fully aligned to our energy transition domains. In spite of geopolitical uncertainty, we are delivering confident and transparent financial framework for 2022, which demonstrates the robustness of our business model. And we believe the current crisis will likely accelerate the energy transition and energy independence agenda, and we are ready to capitalize on this.

And with that, let's open the line for questions.

Q&A

James Thompson (JPMorgan): Obviously I just wanted to ask really around Russia. I really appreciate the guidance that we've got for 2022 and beyond. I just wondered, could you maybe just update us really on where you're at with Arctic LNG2? Are you expecting to call force majeure in the coming weeks? Could you maybe talk to us around the process there? And then also, Bruno, just in terms of the NCL associated with Arctic LNG2, and what the cost might be to effectively unwind that project in terms of the amount of activity you're going to be doing in the next couple of months. So just some further colour, if you can give it to us around that project and the status in this obviously very tricky time.

Arnaud Pieton: James, thank you for your question. I will start and then hand over to Bruno. So you see Russia, Ukraine and the whole situation on Ukraine created, as you may imagine, immediate mobilization of the team here, including of course the executive committee on a daily basis. We activated our crisis management team to monitor the situation, primarily focusing, as you know, on the safety of our people and their families. So we basically spent some time establishing processes and protocols in order to ensure we have mapped everyone, and we had every evacuation option as necessary, and if necessary going forward. So this is really now behind us, and I'm happy to report it is secure.

Now in terms of the update on Russia and Arctic LNG2 in particular, I shall start by reminding everyone of the current status of the project. Arctic LNG2 is composed of 3 mega-trains, 3 GBSs. The modules are fabricated mostly in China. All the modules for the first GBS, i.e., the first train, have been delivered to Russia, and are being integrated on to GBS-1. So I would say that most of everything that is needed in terms of the big modules is in Russia and actually on GBS-1, or being integrated on GBS-1.

So the question is obviously about what's coming next, and we are absolutely still assessing the situation, which, as you may imagine, is very fluid in terms of the do's and don'ts -- the operational do's and don'ts - it's a process that is ongoing. We are in daily contact with our partners and our client. It is too early for us to say precisely what is going to be the future of the project and how it can progress, if it can progress. As you may imagine, we are being impeded by the circumstances around this act of war that is taking place in Ukraine. And we are assessing to see how we can work with it or not. And this is done openly with the client, which is facing the same challenges as we are. So it's a dialogue that we are having with them at the moment. We will probably provide more clarity around that in the coming weeks, or next time we speak. But it's very fluid, and it's keeping the project team busy at the moment together with the client. And all parties have to come together in order to assess what can or cannot be done in the current circumstances. My answer would be a bit long, but I think it's important that I state it. As an experienced EPC contractor, obviously, our contracts include the protections required to address all scenarios, including protection against sanctions and/or force majeure provisions.

The most important at the moment, is that we continue the dialogue with the client and we engage with them. And just as we expect from our customers, we comply with all provisions of the contract, and we will enforce our rights as appropriate in the circumstances and in a manner that is most protective and advantageous for Technip Energies. So this is where we are at the moment. And it's a constant engagement with the teams on site, the logistics team and the client. Bruno?

Bruno Vibert: Yes. Thanks, Arnaud. So maybe to take a step back, and we always said that we operate with a positive cash flow as part of our selectivity criteria and part of the risk mitigation. And obviously, this is the case for Arctic LNG2, not an exception. And the project is cash-flow positive, very cash-flow positive. That means we have cash on our balance sheet, offset by NCL, as you suggest. Very important also, almost the entire cash is outside Russia, in solid banks fully accessible to us. So cash availability is not a problem, cash is not at risk.

So to go back to your question on how this unfolds on the balance sheet. Well, sorry to say, that today there is no single answer or set timing. Obviously, a lot will depend on the sequence, the timing, the chain of events. Many different potential scenarios can arise from this dynamic situation, which was described by Arnaud. At the end of the day, if we were to go to termination, what will be required would be to close out POs or to transfer POs, to close out, to transfer subcontracts and so on. And as this is done, yes, you would suppose that this will mean some cash out, some cash disbursement. And at the same time, there will be a decrease in advances in working capital. So reduction in gross cash, but net of the advances on the other side of the balance sheet, quite neutral, so no exposure there.

James Thompson: Okay. That's very helpful. I'd just say it's a situation that's obviously developing as we speak. If I could just sort of move away to the rest of the business, we would have expected some orders in Russia in 2022 and 2023, and you kind of give us an idea there. Could you maybe just key us into what's on the plate in the first half of 2022? And obviously, it's an improving backdrop, and your clients might be looking to move forward projects elsewhere. So maybe just help us understand whether you could actually replace that potential order intake this year.

Arnaud Pieton: I think I'm not going to concentrate too much on the first half, I'm going to concentrate on the pipeline. As you know, some of those projects, they take a long time to negotiate, and then they come. And they can come in one month, and so whether they happen within the Q2 or within the Q4 or just early January the following year, it doesn't matter too much for us, which is why we're not totally obsessed by the quarterly order intake. But in terms of providing colour for what is available out there, first of all, I think that the current situation is just going to accelerate an LNG cycle. We have more than a single opportunity – there are several LNG projects out there. You would be aware of where we are active in Qatar as well as other countries. So there is additional LNG capacity that is coming.

We can clearly see, I would say, a high level of motivation by some of our customers to be active in the conversion of those prospects into projects. It's happening in areas like Qatar, but not only, certainly in North America as well. And so we're quite confident in the rich nature of the pipeline around LNG. And notably also because LNG is probably more flexible than gas in the pipeline, and it's very evident now. And therefore, the advantages of LNG are pertinent today even more than ever. And what is very interesting about LNG is that the prospects we are seeing are about mega-trains but also mid-sized developments, and all electrified for most of them in the future. So that's obviously very interesting because it tackles LNG as an energy source, but also certainly supporting our strategic positioning and energy transition agenda.

The future LNG infrastructure will be electrified and will be zero-carbon. There is also an acceleration around the things like ethylene, which is a GDP growth-based product and prospect. So after a very slow and low COVID period in terms of order intake around ethylene, we clearly see an acceleration in 2022 and 2023. So that is certainly on our agenda. And like I indicated, in the year, there is an energy transition agenda that is accelerating our content, still not totally at the size of mega LNG projects, but it's becoming now very meaningful in size. And that's around carbon capture, in particular CCS projects, and I have listed a few.

So of course, there's a part of the pipeline will be amputated by what could have happened in Russia around LNG in particular. But there is more than enough for us to concentrate on. We anyway would not have pursued everything we have in the pipeline. It would have been part of our selectivity criteria. So there's more than enough for some strong building blocks in the future in terms of order intake.

Bertrand Hodée (Kepler): Two, if I may. The first one, can you provide a bit more color on Arctic 2 in terms of cash and associated net contract liabilities for the contract on your balance sheet at the end of 2021? And how many people from Technip Energies are involved currently in the project Arctic 2? And in case of, I would say, termination, would you be able to put them rapidly on other projects? That is my first question.

Arnaud Pieton: Thanks, Bertrand. I will start with the people question, then hand over to Bruno for the cash and NCL at the end of 2021. We currently have a bit less than 700 people in Russia. Russia for us is obviously Arctic LNG2 as a project, but we also have 2 permanent offices, one in Moscow and one in the Saint Petersburg. Those people are active on Russian energy projects, but like any engineering office we have around the world, they're active on international projects, so they serve beyond Russian projects. So that's basically the Technip Energies population we have. And in terms of the population we have on the project, staff working on the project, not all in Russia, but between Paris and China and Russia. We have around 400 people on the Arctic LNG2 project.

Obviously, we have a lot more contracted, but they are, I would say, less of a concern when it comes to reallocating them or reallocating resources to other projects. So as you may imagine, reallocating 400 or 450 staff personnel from Arctic LNG2 project and to other opportunities, is almost a gymnastics that we are used to doing, maybe not on a quarterly basis, but certainly twice a year as our projects complete and we demobilize. And so it's a regular exercise that we are conducting in the company. And I'm very happy to report that we have plenty to do that can keep those 400-plus people busy, including in LNG prospects and other ventures, which are actually beyond LNG and the traditional market. So there is absolutely no anxiety around our ability, if necessary, to use those people and reallocate them into opportunities that will represent more of the future for Technip Energies. Bruno?

Bruno Vibert: Yes. Thanks, Arnaud. So more colour for cash, obviously, you know large projects, such as Arctic are very fluid and from week to week or from month to month, this can change. Obviously, I won't give you an exact figure amount, but it’s very fluid and it will change as we continue the project in the following days, in the following weeks. What I can say, of course, is the project is cash-flow positive, very solidly cash-flow positive. And as you know, commensurate with our operations is our commitment to the supply chain, to the subcontractors. So, do we have a large amount of cash on the balance sheet? Yes. Is it in line with a usual contract of this nature? Yes. And will be totally in line with some of our commitment if we needed to enter some closeout. But obviously, today, the project is still going on. So there are still cash in. There are still disbursements. It's a topic which is under constant monitoring as other things.

Bertrand Hodée: I forgot to congratulate you on your very strong Q4, and also for the transparency on your Russia exposure as well as the very comprehensive 2022 guidance with and without Russia. My second question relates to LNG opportunities in the U.S. In the past, you've refrained from taking U.S. LNG liquefaction contracts. In my opinion, you were right to do so given the inherent construction risk in the U.S. But are you in discussion or early involvement with potential U.S. LNG project to be sanctioned this year or next year? And are you confident that the U.S. LNG promoters will go to the modularity and to the modular concept that was, for example, very successful on Yamal?

Arnaud Pieton: So Bertrand, thank you for the question. And I think there's almost the answer in your question. Yes, would be the short answer. Yes, we are engaged with developers of mid-scale LNG in the U.S., in North America. And as we engage with them, I want to reassure everyone on the call, we are engaging with those developers only on the basis that we would be delivering a solution that is modular. We are not engaging with LNG developers who are not interested to accept our modular and fully electrified LNG solution. So yes, we're engaged, but we engage with a single product. It's a modular one, and it's an electrified one.

The advantage of the modularization – and you're right to ask the question about whether it's going to be accepted there – but there is an interest, and this is why we are engaging. It's only on the basis of modularization. First of all, the modules are smaller because we're talking small-scale or mid-scale LNG versus large-scale trains in other areas of the world. And by modularizing, you're basically shrinking, I would say, the construction cost by local contractors and reducing the scope to civil work and interconnections and things like that, that are probably a lot less risky than stick-building LNG trains along the Gulf Coast of the U.S. So again, for us, we are doing it because basically, it's modular. It's a single product, modular and electrified. It's not lump-sum construction risk – we are finding a partner which is ready to take lump-sum construction scope, and it is ready to do so because the scope is much smaller as explained, because it's basically mostly civil work and interconnection. So even for that partner, the risk profile is much lower for him (so that) it becomes acceptable for him to accept a back-to-back lump-sum. So those are the conditions under which we are engaging with a few LNG developers in the U.S.

Øystein Vaagen (Fearnley Securities): I just have a quick question on the 2023 backlog, which is now at roughly EUR 4.4 billion. You've previously been quite forward-leaning on order intake expectations for 2022. And then my question is, if you can give some colour if you expect a lot of that order intake to have a large 2023 portion of work included in it?

Arnaud Pieton: Thanks, Øystein for the question. So typically, as you know, when we secure projects, if I take project delivery, first of all, projects within project delivery, if they are signed in 2022, as you know, considering the nature of the project, there will be a gradual ramp-up. And depending on when they are signed into 2022, they will have an impact on 2023 revenue. But certainly not the full breadth of an impact. The peak of revenue for projects signed in 2022 will occur in 2024 and 2025. So there will be maybe somewhat of a lower contribution to revenue in 2023. That's a fact of life when it comes to project delivery. But beyond project delivery, there's also TPS, or Technology Products & Services, for which we are also expecting growth in 2023 versus 2022. TPS has a much shorter book and turn, if I may say. And therefore, it will contribute positively to the revenue level we will see in 2023. So that's what I would say.

And again, I will repeat what I said earlier. Some of the projects are large in nature. What matters to us is not so much whether they are signed in November 2022 versus January 2023, it's that they are signed in the right conditions. And it's okay if they are delayed by 2 or 3 months, and they are signed and secured in 2023 versus 2022. That is not absolutely an obsession. And that's how I would characterize the dynamic at the moment.

Øystein Vaagen: Perfect. And just one last clarification on Yamal. Could you just clarify if Yamal is outside the guided EBIT impact from Russia, and also that most cash share is already on your books, and that there is no more Russia activity, if I'm correct?

Bruno Vibert: Yes, Øystein, I can take this one. So Yamal, the cash is on our balance sheet. No further invoicing to be made on that. No one on site. It's totally the end of the warranty period. So that's why for us, we do not consider Yamal to be at any risk given the current evolution in the crisis. So that's why we haven't excluded Yamal from the projects on the rest of the portfolio. And so Yamal is not included in the Russian projects in execution because we consider that it's done from this respect.

Sasikanth Chilukuru (Morgan Stanley): I had 2 related ones, please. The first was regarding the balance sheet strength. Your net cash position improved quarter-on-quarter. And now you're in a net cash position even after taking into account the net contract liabilities. In this context, I was just wondering what you think is the right level of net debt or net cash position for Technip Energies? Related to this, if you can give us any guidance or colour on your expectations of working capital, excluding Russia of course, in 2022.

Bruno Vibert: Thanks, Sasi. So obviously, it's going to be a bit of a potentially volatile year in terms of working capital depending on what happens on Arctic as I was saying earlier to James. In terms of cash, cash is associated to the project evolution. So today, as I was saying, we are very comfortable with the cash position of Arctic, just as we are very comfortable with the cash position and the positive cash flow of any other project.

So here we are positive, and that's why Arnaud was mentioning earlier that we have the full confidence to deploy our strategy to continue to invest, increase R&D, make acquisitions just as we've had for X1 Wind, in Floating Offshore Wind or Hy2Gen over the last couple of weeks. So we have the ability to do that, we have the ability to pay dividends. So that's why we are very comfortable with this level of cash, which gives us this flexibility plus, of course, is associated and basically secures our risk on the project.

Now in terms of cash flow for next year, well, obviously, setting aside Arctic, which I have discussed, we would see a more stable and neutral cash flow for the rest of the portfolio versus 2021, which was quite positive. Here, I think within the project more later-stage, mid-cycle or early stage. And of course, we don't control the FID timing. We will expect to have a much more, let's say, neutral cash flow impact on a full-year basis. And that means also, of course, we continue with the fact that excluding working capital variances, the net conversion of the EBIT to net cash will still be very positive.

Mick Pickup (Barclays): A couple of questions, if I may. Firstly, thank you for talking about how your contracts are protected against price inflation, but obviously, there seems to be inflation across the whole market. Can you just talk to how your clients are thinking about that at the moment? Are you worried that project bids, when they do go in, might be too high for your clients, or is there an urgency for your clients to accelerate at the moment?

Arnaud Pieton: Yes, Mick, thanks for the question. So it depends on the clients we're talking to. Those with whom we have, I would say, ongoing ventures is, it is likely that we have through the ongoing venture, probably options at secure price for some of the equipment. So if we were to go into a subsequent phase with them, what we would have to do is simply activate and trigger the options that we've got through the supply chain at fixed prices. So that's one example. For the customers with whom we don't necessarily have an ongoing project or (a project) of similar nature, and we go greenfield, we are being absolutely transparent with them with regard to where the cost growth is coming from.

So it's by playing this transparency that we are able to find all the solutions, either by enlarging the approved vendor list and finding alternative sources of supplies. And so it's really through being transparent that we are addressing the situation. So there's really no panic. It's a conversation. And that's, I would say, the beauty of our early engagement principle. It's giving us an opportunity to find solutions together. So for now, we haven't seen a project which would have gone back onto the shelf just because of inflation reasons.

The conversations are, OK, how do we go about that? What do we do? What solutions do we find? Very often, we can find solutions between the design basis that maybe is a bit rich, and ways we can actually help them lower the capex and their opex all together. And let's not forget as well that inflation is not happening across the board. Indeed, there is some, but we have areas on materials etc. where there's a bit of a reflux.

Mick Pickup: Okay. And can I ask secondly about hydrogen conversations? Clearly, you've got a very strong position when it comes to potential blue hydrogen projects. But with the way gas prices have gone for the last 6 months, I assume most conversations aren't what they were. So what are the conversations on hydrogen at the moment?

Arnaud Pieton: So yes, the conversations we're having on hydrogen at the moment, on blue hydrogen, I mean the several prospects we've got in the pipeline around blue hydrogen, they do remain active. They are obviously taking place with those customers who have, I would say, reservoirs compatible with CO_2 sequestration. So with those who have gas and reservoirs compatible with CO_2 sequestration, the conversations are pursuing, progressing. And we haven't seen any decline or reduction of pace in the conversation simply or just because of the gas price that is very high, and therefore, they would be tempted to reallocate gas to, I mean something else than blue hydrogen.

So at this stage, it's not the case. And the conversations are pursuing, we those with gas reserves and suitable reservoirs, notably in Northern Europe. There’s still, I would say, a strong motivation and appetite for this, attraction for this solution while working on green hydrogen as well. So that's our experience at the moment.

Jamie Franklin (Jefferies): Well done on 2021 results. So most of my questions have been answered, but just the one. I appreciate that you can't provide a specific value for Arctic 2. But can you update us on approximately how much of the EUR 3.8 billion cash is JV cash at year-end? And how much is unrestricted?

Bruno Vibert: So of course, all the cash, even in the joint venture is not restricted, I mean we don't have restrictions associated to that. Of course, it's associated to the project just as it would be for most of the other projects, if it was in a specific entity. In terms of exact splits, I won't give you this. But yes, the project cash in the joint venture where we have the largest project is significant in the terms, so it's not minor within the total pool. But the full amount of cash accessible through cash flow, through cash pool and so on is, again, also very significant. So I think both are significant in this respect and really give us the opportunity to have this cash management and this flexibility that we can have from a day-to-day perspective operating.

Phillip Lindsay: That concludes today's call. For any follow-up questions, please contact the IR team. Thank you and goodbye.

[END OF TRANSCRIPT]