

## Half Year 2016 Gaztransport et Technigaz SA Earnings Call

Event Date: 2016-07-22

### Philippe Berterottière (Chairman & CEO):

Okay. Good morning, everybody. Welcome for this presentation of this -- the first six months' results of 2016 of GTT. Immediately I would like to start with the highlights for these first six months.

So, we had 13 deliveries, and 2 new orders. We've had a strong order book of 107 units with 96 LNG carriers. We have quite sustained subsidiaries' activities. You know that we have several subsidiaries providing services. We set up new partnerships dedicated to LNG as a fuel and small-scale activities. You know that's something that we consider as really an area of growth and on which we've been able to set up significant partnership.

We have opened up a new office in Shanghai in order to tackle the Chinese market. And the last highlight that I would like to talk about is that in September we are going to pay an interim dividend of EUR1.33.

So, strategy and update; I think that you are familiar with this chart. Maybe you can notice some differences with -- we have some new services, which is quite in line with the strategy we detailed in the past, which is that we are keeping on introducing new services. We have already a quite wide offering in terms of services but we've introduced new ones.

You see G-SIM, which is a simulator of LNG carrier that we are selling. We were using -- we are used to sell trainings to ship owners for -- in fact, not too long, for a couple of years, and now we are selling a simulator. And that has attracted quite a lot of interest from the industry. We have also some evolutions on the LNG as a fuel as we are looking very much at very large vessels on which we could offer our systems.

So, activity update; consolidate our position in LNG-shipping industry. The -- currently the other demand anticipated from 2022 due to strong long-term demand drivers. So, 2022 by LNG standards is not that far away, because if you want to be able to satisfy this demand you've got to take decisions on LNG plans in a not-too-distant future. It's green-field, in fact. You have to take decisions about now. And if it's brown-field you have a year or two or a couple of years to wait before taking the decision in order to meet this demand.

LNG price, current low LNG price, should offer new market opportunities. Well that -- you could consider that I'm over-optimistic, but please look at it in a minute -- for a minute. Low LNG -- the lowest source of energy for the time being in the world is coal. The gap between coal and LNG has never been as thin as it is now. And so there is a very strong incentive to switch from coal to LNG and that is very much helped by the current prices.

LNG charts; some vessels are not chartered. I will not argue about that. And people are talking of 40 ships which are not chartered. I would say that LNG carriers, it's not a commodity. And in these vessels you have old ones which are small in terms of quantity and which are using -- which have a quite high boil-off, which is the thermal characteristic of LNG carriers, and you have also some more recent ones. We will come back to that later on.

Well, as far as LNG projects, some are in the offings, quite ready to be decided. We -- probably the low LNG price is not helping major projects to be decided. Still we saw a decision in July. Tangghu number 3, the third train in Tangghu, so it's relying on an existing facility. You have the harbor, you have the tanks, you

have -- so, it's just the construction of the third train. But at least -- and I think that we need to see -- not to watch only the black swans but also the pink flamingoes. And that is definitely a pink flamingo, this decision for new LNG facility.

LNG-carrier order intake, so it's a low level of orders. We have ongoing discussions. And the industry is quite active in discussing about new possibilities. We are confirming that we still see 50 vessels to be ordered for satisfying the need for transporting LNG from plants which have been sanctioned, decided, over the last two years.

You can see on the left-hand side part of the chart that the supply of LNG should begin to decline by the beginning of the next decade and there is a need for launching new projects. You can see also that currently on the lower part of this chart there are the excess capacity. So, currently, you have a kind of feeling that there are some excess capacities, while, in the medium term by LNG standards, you need significant additional capacities.

And it's probably the kind of paradox in which we are where people are -- LNG players are suffering from low prices and from some quantities that they have difficulties to sell, while in the midterm they need -- we need additional capacities.

So, a chart that you are used to, where we see the projects which can be decided. So, you see Tangghu, which has been decided. We may expect another decision by -- in the second part of this year. And then, well you see many other projects in 2017, whether they're going to be decided obviously it remains to be seen. But many projects are ready to be decided as if the demand is really materializing.

Well, that's what I was talking to you about, about the low LNG price. And what you see on the left-hand side part of this slide compared to coal; the megawatt coming from coal or coming from LNG. It has never been a megawatt -- you know that LNG is mainly for power. It's not so much for cooking. It's mainly for power in Asia for the time being and a little bit in -- also, Europe and in some other places.

But the megawatt coming from LNG has never been as cheap as it is now compared to coal. And obviously it's a very strong factor of support of the demand for LNG.

On the right-hand -- on the other side of the chart you're seeing the price of LNG coming from the US compared to the Asian prices. You know that LNG in Asia is based on the barrel, oil barrel, and LNG in the US is based on Henry Hub, which is a price based on the supply and demand of gas in the US, so not related to oil.

And for buyers in Asia who are -- it's the fact of having supplies quite different with a totally different pricing formula is an opportunity to maximize or to minimize the cost of the supply. So, it has a very strong interest.

And, with the current oil price, we see that American LNG is attractive. And that is something which is very important, including for our market assumptions, because I will be challenged on that. But please keep that in mind the -- as the pricing structures are very different and with the current barrel price, the American LNG is very attractive.

So, LNG carriers, you can see the incremental shipping demands over the next years. I'm sure that I'm going to be challenged about that. What I can say is that, of course, there are a lot of deliveries. But, once more, in order to satisfy the need for transporting LNG from plants which have been decided the last couple of years there is still a need for new ships.

And then this demand will be -- should be relayed by the new projects to be sanctioned.

Well, the other activities, FSRUs or FLNGs, that's segments which are of particular significance. They are not that big in our overall turnover, but we have a 100% position there. We design all of them.

There are a lot of discussions on FSRUs and FLNGs. Or, FSRUs, FLNGs, I would say that it's a bit more remote, even though there are some. And we could see some activities, which is important not only because we may have to design the FSRU, but also because each time a FSRU is decided it's a new outlet for LNG which is appearing. So, a new opportunity for delivering LNG, and a new need for LNG carriers for supplying this FSRU.

Onshore storage tank; very small activity, we -- for the time being, as it's very much linked to new facilities.

So, capitalize on the expected potential in adjacent sectors. I give the floor to Julien.

**Julien Burdeau (COO & VP in charge of Innovation):**

Good morning, everyone. I will run you through the remaining pillars of our strategy and give you an update on each of them. The first regarding our target of capturing the potential, what we feel is a great potential in adjacent sectors, just especially in the development of LNG as a fuel.

So, there to give you an update, so it is a nascent market. It is an emerging market. It is a real energy transition for the shipping industry. What we see is that the various elements that will make this happen in the future are progressively and continuously developing or progressing. So all these elements are necessary to make that this LNG as a fuel becomes a reality. And this is progressing well in a -- for each of them.

The first one is, of course, the regulatory framework, so emission-control areas have been introduced last year in Northern Europe and in coastal areas of North America. Other areas in the world, in China, in Australia, are deciding to introduce progressively a specific emission-control area, especially with a cap on sulfur emissions.

And we expect that probably by 2020, depending on a final decision from the International Maritime Organization, a global cap for all the ocean-going vessels be introduced regarding the emission of sulfur oxide. So, really this regulatory framework is expanding, and is the first base for the development of LNG as a fuel.

Second -- the second element, of course, is the characteristics of LNG. Just keep in mind that as of today the shipping industry represents something like 30% of the global emission of sulfur oxide in the world, so, the - - just the vessels themselves. So, there is a lot at stake, regarding the reduction of the emissions of nitrogen oxide and sulfur oxide from the shipping industry.

And there when you go from the existing fuels to LNG you -- basically you reduce by 80% the nitrogen oxide and by almost 100% the emission of sulfur oxide. So, this is really -- here you have a real solution for -- in terms of to the environmental concerns.

Of course, the third element that will make this possible in the future is the economics. The Go to LNG must prove economically feasible and sustainable. And this comes down to two elements which are also

progressing. The first one is the price of LNG, of course, so the merit of the present situation is that LNG appears as a convenient fuel.

And the second point is the competitiveness of the supply chain, because you need to bring the LNG to the final users. And there also we see a number of initiatives and we are part of them. For instance, in the US, when we introduced the bunkering barge. We are part of the initiatives that will make the fuel competitive for the final user; that is the ship owner.

And last point I want to touch is the industrial aspects. Of course, it is also -- it is not only an energy transition; it's also an industrial transition. You have to -- it must be -- the owners must have access to the industrial solutions to equip their vessels with new tanks, new cryogenic gas change, et cetera, and there the industry is progressing.

And you might have noticed that during the first months of 2016 we entered into new partnerships with what we call outfitting companies; that is companies that will be capable of installing our membrane systems aboard vessels, one in the Philippines and the other in Europe, AG&P and Endel. And these -- together, with these companies, we increase the ability of the overall industry to offer -- to propose to the owner practical, accessible, solutions for their vessels.

So, that's basically -- well, the points I wanted to make on that.

You see here on this chart a bit more elements, slide 19, a bit more elements regarding the types of -- the types of initiatives that are taken by the governments so far -- in order to limit the emissions of nitrogen and sulfur oxides. I said China, Hong Kong, California. And also development of incentives, tax incentives, subsidies, in order to, let's say, catalyze a company, accelerate the development of this new, cleaner, fuel system.

And then when coming back to GTT and what we are doing on that, so we are progressing on our offering, technical and industrial offering, with a focus on some segments. You know our systems they are especially adapted to bigger tanks. And they are particularly relevant when space is a concern and that's the case for container vessels, for cruise vessels. And there we are developing specific technical offering but also specific industrial offering.

A third point on which we are focusing is, as I said, the development of a LEAN, competitive supply chain. We have the price of the molecule but you need -- but you have also the logistic cost. And there we must offer to the industry the solution that will make -- that will allow the logistics to be effective, to be efficient.

That was for this point regarding adjacent sectors and especially LNG as a fuel.

The third item, this third pillar, regards the services. You know we have devoted over the last years a lot of efforts in expanding innovative service offerings to the owners and to the major oil and gas industries. We are continuing to do so.

This -- Philippe mentioned that, mentioned in particular the introduction of simulation software by GTT training with the -- a -- with Teekay in particular but also with -- as a complement to what we are doing in the US. So, the operator of the bunkering barge which, we are currently building, will also use this simulation software. So, you see how we can, let's say, bundle services with technical offering.

For H1 2016 our services, the revenues coming from services, represented 5%. Cécile will come back on the structure of these revenues, but you know that they are related to maintenance services, to engineering

studies, and to the suppliers' approvals in particular. And there in H1 we saw a decrease when compared to the really very, very, good year we had in 2015. And the reduction in our turnover in services was in particular related to lower activities, lower activity, in the engineering studies.

Last point I will quickly make is a reminder on what we are doing and what we are studying in order to identify external-growth opportunities. Our objectives have remained the same. The overall strategy is exactly the one we developed when we last met with three objectives; deepen our, let's say, technological potential on our core markets; catalyze the development of -- our development in adjacent markets and see, too, how we can leverage our knowhow, our expertise, beyond our core base.

Of course, when we are doing that we are very -- let's say pay a lot of attention to a number of criteria and especially the compatibility of the business model of a potential target with GTT and what we are today. It is a process we have initiated last year. It's an ongoing process. There is no material announcement to be made today.

Of course, as we have always said, the -- our intention is not to retain excess cash unnecessarily. And if no opportunity would materialize with this -- this excess cash will certainly be returned to shareholders.

So, that was the update I wanted to make on these three items, leaving the floor to Cécile for the financials.

**Cécile Arson (CFO):**

Good morning. So, I will present you the summary of financials as of the end of June, 2016. First, overall, as you may see on the schedule, our -- all our financial aggregates grew by about 11.5%, 11.8% over the period, if we compare to June last year.

Revenues, they grew by 11.4% and amount at EUR117 million, about. Revenues coming from royalties grew by 15.2%. There is an increase of about 19.5% in royalties coming from LNG and ethane carriers and they amount to EUR111 million. There is an increase by about 25.5% from FSRUs.

Nevertheless, we experienced significant delays in the construction of the vessels, and I will come on that a little bit later.

If we look at revenues coming from services, they -- we have seen a decrease by about 30% because they amount EUR5.8 million. But you have to keep in mind that last year was an excellent year for services, especially for studies, which is not exactly the case this year.

We -- and if we compare this amount to revenues coming from services in 2014, they represent an increase by about 20%.

If we look now at margins and at costs, we have an increase by about 11.6% to 11.8% on EBITDA, EBIT and net income. And thanks to the limited cost basis of the Company and thanks to the flexibility of our business model. And, of course, as you may see, we have still high margins between -- well, 63.1% for the EBITDA margin, 61.7% for the operating income margin and a net margin of about 51.8%.

If we look now at cash, the cash flow grew by 9%. The cash-flow amounts EUR70.9 million at the end of June this year, and this is mainly due to the growth in EBITDA. But you see that we have a change in working capital which represents a decrease by about EUR30.5 million. And you see that our working-capital

requirements are amounting now EUR15.8 million, which is a positive working-capital requirement, whereas we had last year a negative working capital of EUR3.5 million.

And this change in the working capital comes from the fact that we recognize cash and revenues during the construction of the vessels. And currently we are in a position where there are many deliveries that are awaited in 2016 and 2017, which means that we are at the end of the construction, where the working capital may become positive. So, this change in the working capital is not coming from an increase in receivables but a decrease in deferred income, in fact. And, of course, this decrease comes also by the fact that we have quite a few orders since the end of 2015.

If we look at the cash position, we have a high cash position of EUR59.6 million, if we look at cash and cash equivalent. And -- but we also have cash accounted as financial investment, which amount EUR19.9 million, so we have a total cash of about EUR80 million at the end of June.

Keeping in mind that we distributed the balance of the dividend for 2015 in May and it represented EUR50 million. And yesterday the Board decided to distribute an interim dividend of EUR1.33 per share. And it will be distributed in September and it represents 83% of the net result as of the end of June.

So, if we now have a look at the order book and the value of this order book, you see on the upper-left part of the slide that as of the end of December we had 118 units. We now have 107 units, which represents a decrease of about 9% in the order book. And in parallel the value of this order book decreased by 15% from EUR619 million to EUR525 million.

And if you look at the way these revenues -- sorry -- are spreading between 2016 and 2020, you see that some of the revenues that we were expecting in 2016 were reported over the next years because of the lap time in the milestones of the construction of the vessels. So currently, and in the absence of new postponements or cancellations, we expect the cumulative revenues from 2016 to 2020 to amount EUR636 million.

If we look now at the cost base, we -- the cost base shows a slight increase from 2015 to 2016, at EUR45.5 million versus EUR44 million last year. But if we look at that as a percentage of sales, we see that it represents a decrease from 42% of the sales to 39% of the sales over the period. And if we look a little bit more in detail, you see that there is a quite stability in staff expenses and there is a decrease in subcontracted tests and studies, which is partly offset by an increase in travel expenditures and other external costs.

Travel expenditures are directly linked to the fact that we have currently many vessels being built in the shipyards and it means that we send people from the Company in Korea, in China, to be in the shipyards, so it explains this growth. And for other external costs it's essentially fees.

And I take the opportunity to remind you what are the flexibility we have in our cost base. We currently have about 20% of our staff who is under a non-permanent contract. We still have many subcontractors who assist us during the engineering studies, and we have profit-sharing schemes which are directly linked to the activity of the Company or -- and to the level of the net income of the Company.

Outlook. Outlook, Philippe.

**Philippe Berterottière:**

So outlook. GTT revenue, so taking into account the postponement of some construction milestones and the current level of orders, the revenues for 2016 now are estimated at around EUR240 million.

The net margin is unchanged. We still plan to have a net margin above 50%. And the dividend payment – that's as well unchanged for 2016 and 2017, dividends should amount to at least the dividend we paid in 2015. It means EUR2.66.

So, now I open the floor to questions.

+++ q-and-a

**Philippe Berterottière:** Yes?

**Unidentified Audience Member:** For LNG as a fuel what would be the potential size of this market?

**Philippe Berterottière:** Well, LNG as a fuel, we are not giving any indications on the size of this market. We - there are various solutions possible. We think that membrane, our technology is quite attractive for this market. I would say that if you ask the size of the market, you are asking as well when this market is going to materialize and that is depending very much on the prices of the energies -- oil price and LNG price, because you need to have a gap, quite a significant gap, between LNG and oil, the HFO or MGO, the oil energies used by ships, in order to justify the investment into a cryogenic tank.

Currently with the fairly low oil price, the incentive is not that strong and so the market is still quite limited. Of course you have the regulation driver, which is in place, and which is attracting or generating quite a lot of interests from the shipowners for switching to LNG.

But in addition to that, for having a very strong take off, including on large tanks, you need to have a quite large gap between the different energies.

Unidentified Audience Member^ How significant could this market be to the Company in the next 10 years?

**Philippe Berterottière:** Well, we've made no mystery about that, about the fact that whenever you are talking about a tank with LNG on a ship, we are feeling that we are quite well placed, because it's our bread and butter for the last 50 years. And we think that with the regulations, which are going to be extended to new parts in the world and with the right [RI keys] between energy prices, that could be quite significant.

**Unidentified organization member:** We have one question on the call.

**Operator:** We have one question on the call. We will now take our first question from Rahul Bhat from JP Morgan. Please go ahead.

**Rahul Bhat:** Good morning. I have a couple of questions please. Could we firstly start with the Korean yards? Or most of them, Daewoo, Hyundai, Samsung included, are going through restructuring and the whole process evolving around it, and there are some worker union strikes, et cetera, around that. How is -- is this affecting you in any case? And is this one of the reasons of the delays we're seeing in construction?

**Philippe Berterottière:** Well, it's a quite good point. It's very true that we are following our partners, are weathering the situation in which they are. First of all, this situation is not particularly coming from ships, and even less from LNG carriers. It's mainly coming from offshore. And that is a consequence of the low oil price and the fact that oil and gas companies are very much reducing their offshore investments. First.

Second, what can be said is that on LNG carriers they are keeping on making money, and in fact in their restructuring plans, they are quite clear about the fact that LNG carriers, it's a sector of future for them, as they see that as a place where they are making money and as a place which should grow.

And so of course we are quite concerned and sorry about the situation of our friends, our partners in Korea. I think they will manage to sort that out. They have a strong order book and so which is going to help them in the next couple of years for implementing progressively restructuring plans.

**Operator:** We have a question --

**Rahul Bhat:** Sorry. So you're not seeing any delays in payments or anything? And do you think this is one of the reasons that there's low order intake, because people, as in LNG shipowners do not want to place an order on a -- with a company that they don't know is going to survive the downturn or not?

**Philippe Berterottière:** Well, I would say that it's -- we are not suffering from delays of payments. We -- I don't think that this element is -- or the situation of the Korean yards is deterring shipowners to place orders. They have -- first of all, they have guarantees and Korean banks are providing these guarantees to shipowners. So we fund guarantees in case of difficulties. But also these Korean yards -- you are speaking of huge Korean yards, which are the image of Korea. In a certain extent, for me, they are too big to fail.

So there is a need for restructuring and the fact that there are three big Korean yards is probably generating a very high level of competition, probably too high. Well, but in fact, in my opinion it's not the element which currently is deterring shipowners to order. The fact that the charts are low and -- is much more a matter of concern for them.

**Rahul Bhat:** Understood. And Philippe, on the order outlook for 2016-2017, when we last spoke you said that you're still seeing a lot of tenders and you expect -- but you just don't know when some of them are going to close. How has that changed since the first quarter of the year? Has it -- has tendering decreased or with the oil price recovery are you seeing any recovery in that?

**Philippe Berterottière:** I would I say that I would just repeat my answer. We are seeing a lot of discussions and that these discussions are not coming to a conclusion and people, charterers, shipowners, are intending to delay their decisions. They have the feeling that at least in the short term they can rely on the available ships on the market, and they may take a decision at a later stage. When it's going to be this later stage, it's a question on which I will not necessarily commit myself. But still I keep on to what I was saying. What has been decided in the last couple of years for building liquefaction trains in the Gulf of Mexico is going to generate LNG production by 2018 and 2019. So with the current situation there is a need for ships, which will have to materialize not too far down the stream.

**Rahul Bhat:** Understood. And if I could just clarify, I read the news reports that DSME won orders for two LNG carriers from Maran Gas, using the NO 96 technology, but you've not -- you have not put a press release out and not recognized it as an order intake. Is there -- has it -- (a) has it gone to someone else and am I mistaken, or is it something that you've just not yet been notified about?

**Philippe Berterottière:** We've not been notified about. While we have a strict policy to announce contracts when we are notified, and we have not been notified. Of course we know very well Maran Gas, which is a major shipowner and a major partner of GTT. But as we've not been notified by DSME we don't announce this contract.



**Rahul Bhat:** Understood. Thank you Philippe.

**Operator:** We have another question over the telephone from Jessica Alderson from Morgan Stanley. Please go ahead.

**Jessica Alderson:** Hi, yes, Jessica Alderson here. See, I had a follow up to Rahul's first question. That perhaps you said this and I missed it, but can you please confirm whether the delays in the construction milestones are because of the shipyards' clients asking them to prolong the construction process so they can delay payments? Or is it actual execution issues with building the vessels?

**Philippe Berterottière:** Well, it's really the shipowners who had the feeling that deliveries of ships in 2016, 2017, is generating a kind of difficulty, because of the low charts for the time being. So they're negotiating with the shipyards the possibility of delivering these ships later. And as they are delaying the construction of these ships, the technical milestones are delayed and our payments are under -- mainly the way our turnover is recognized is delayed.

Jessica Alderson^ Okay, yes. Very clear. Thanks. And then also, so you said that 50 LNG carriers are needed for projects that are already sanctioned and I know you said the timing of this is quite uncertain, but how do you get to this number? Is this a number that you've come to from talking to clients and each of your clients say, I need three LNG carriers for this project? Or is this an estimate that you've made from shipping distances and LNG capacity?

**Philippe Berterottière:** Much more the second way. You look at the production. You look at what -- you have metrics on what are the possible destinations for these quantities, and you derived from that a need for ships. So of course you can play with the factors. You can play with the core speed of the ships, you can play with the quantity of cargo on the ship and you can play on the destinations, which is even more important. But you are still coming up with significant -- very significant figures.

And well, we may talk -- well, the demand for the plants decided in the last couple of years -- well, we are using these metrics for a while, and in fact in the recent years it has proven to be quite right, so we are still keeping on refining the model. Of course it depends once more very much on where we deliver, when these ships will have to deliver their cargoes, but up to now it has proven [to be] quite right.

**Jessica Alderson:** Okay. And then, yes, just a final quick question. Are you having any conversations that indicate that LNG carriers may actually become cancelled rather than just delayed?

**Philippe Berterottière:** May become --

**Jessica Alderson:** Become cancelled? So clients say, we're not building them at all?

**Philippe Berterottière:** I really -- I really don't think so. For a reason -- in fact, you probably noticed that -- and we did not hide that -- that in the last year we did not receive as much orders as we received in the past. So it means the orders -- our order book is not that strong any more. And these ships are more or less getting built, and terminating a contract for a ship which is in construction is much more expensive than terminating a contract for a ship which is -- which has been contracted only two months ago. So I would say that the fact that our order book is getting a little bit old is a quite positive factor when you look at the likelihood of cancellations.

**Jessica Alderson:** Okay great. Yes, thank you very much.

**Guillaume Delaby:** You're with Guillaume Delaby of Societe Generale. I have three question if I may? First, regarding the Tangghu project, can we have, let's say, a guess estimate about the number of units which might be required or ordered?

Second question will be regarding the deterioration of working capital in H1 and -- but it is a mechanism between this deterioration and the delay in construction milestone? And to conclude this question, what should be expected for the full year in terms of changing working capital requirement?

The third question is to come back to LNG as a fuel. I think, Philippe you didn't mention the role which may be played by fines. So my question, what are the projects or the different governments regarding potential fines in order to be sure that the new regulation will be enforced?

**Philippe Berterottière:** Okay, so the first question about Tangghu. Tangghu -- in fact the third train for Tangghu is mainly aiming at providing energy in Indonesia. The -- 75% of the production is supposed to be delivered in Indonesia and should not generate there a need for new ships. And one-fourth, 25%, is supposed to go to Japan and may require two ships. As far as I know the Japanese buyers should deal with that through their existing fleet, as far as I know.

So, well, I was highlighting that, not particularly for highlighting the number of ships that it could generate, but at least to show a positive sign in the market. What I was referring to as a pink flamingo. And there is -- it shows that while some people feel that there is too much LNG, or LNG is cheap, some others are still investing in new facilities.

I give the floor to Cécile for the working capital.

**Cécile Arson:** Your question was about the link between change in working capital and delays in construction. It's difficult to say because when there are delays, invoicing are delayed and revenues are delayed. So I don't think there is really an impact between both, a link between you see changing working capital and delays.

And your second question was about what will be the working capital at the end of the year. Sorry, but it depends on the different milestones of our order book, so quite hard to say. I can't answer this question today, sorry.

**Philippe Berterottière:** The last point, your last question was about LNG as a fuel and fines. Fines are there. Currently people are addressing the regulation in using one fuel, which is the marine diesel oil, which is fulfilling the emission requirements. So I would say that while there may be people who are not totally complying with that, I would say that the regulations is really entering into force and people are trying to comply with that.

Yes, you wanted to -- no, it's okay? Yes.

**Ahmed Khalifa:** Ahmed Khalifa at Alpine Value Advisory. My question would be regarding the Korean market regulation issues. And about the market share you think you'll end up with on that market and what would be the impact on your revenues and your cost structure?

**Philippe Berterottière:** The impact of --

**Ahmed Khalifa:** Of the market regulation issues in the Korean market.

**Philippe Berterottière:** You mean the inquiry in Korea?

**Ahmed Khalifa:** Yes.

**Philippe Berterottière:** The KFTC inquiry? Well, the KFTC inquiry is starting fairly slowly, so we consider that our situation is we did not commit any kind of infringement to competition regulations, so we are going to provide the answers and to fully cooperate with the Korean Fair Trade Commission. And at this stage we don't expect any fines or any consequences. And also, well, we did not have any provision -- we don't have any provision and you can see that on our account for these first six months. We don't have any provisions for covering that.

**Baptiste Lebacqz:** Baptiste Lebacqz, Natixis. One question. You mentioned that 50 vessels must be ordered for projects decided in 2014, 2015, but at the same time you mentioned that 40 vessels were not chartered, 20 were too old and 20 other one could be -- could make some competition on this market.

**Philippe Berterottière:** Yes.

**Baptiste Lebacqz:** Does that imply that at the end, finally only 30 vessels could be ordered for you? If we deducted the 20 vessels which could make some competition? And a second question linked to this one, on the 20 vessels which may compete with new builds, can GTT make some business, like certification, verification, before being -- to having a contract, for example?

**Philippe Berterottière:** Well, on the 40 -- 50 vessels that -- on the computation of the 50 vessels that we have, we took into account the available ships. So we took into account the 40 ships, which once more, for us are not really all of them available. Some are too small and some will stay, anyway, in the spot market, which should take much more important tonnage when the production from Gulf of Mexico will increase, because you will have two different pricing structures. And that will give opportunities to trading. So that's the issue.

And about new ships, whether we could intervene abroad. Well, we are trying to see what we can do abroad in terms of helping the shipowner, not in terms of certification, because in the shipbuilding industry classification societies are doing that, and they are a kind of independent actor who are acting as certifying, validating the construction and validating also what GTT does. So in a certain way we cannot judge ourselves. We cannot be part of the construction and judging ourselves.

But it does not prevent us from trying to figure out what we could bring in terms of assistance to shipowners in the construction. I think that on our service slide you will see -- yes, you will see on the left hand part of the slide studies and pre-project vessel modification feasibility studies, content engineering. So that's where -- really where we are working with the shipowners quite early in the process of the construction and we are keeping on doing that and also keeping on trying to improve our offering. That's it.

**Jean-Francois Granjon:** Jean-Francois Granjon, Oddo Securities. Just a question regarding the margin for the first half. Why we see a so limited improvement for the EBIT margin, or the EBITDA margin, compared to the strong growth for the sales by more than 11 -- we have only a 20 basis point improvement. So can you explain why we have a so limited improvement?

And for the second half, with our limited growth for the sales expected, taking into account the new guidance, should we consider that the margin during the second half should be lower than the margin in the first half? Thanks.

**Cécile Arson:** So your question is about the evolution of costs in fact, because you see that we have a kind of forward evolution between costs and revenues and that the main explanations -- main explanation, we have a cost base which is composed with staff costs, so no change because we have the same number of people, and for the rest, as I explained, we have subcontractors currently, and it's not because we have no order, currently, that we have no engineering studies to do, because of the orders we received 18 months ago, I mean --

So the levels -- or the level of subcontracting is the same as what we would have, well, I mean is independent from the number of orders or independent from the revenues we received. And for the rest, you see I explained that we -- as we have many ships at the end of the construction on the shipyards we have to have people in Korea, which explains the slight growth in travel expenditures. Is it okay for the evolution?

**Jean-Francois Granjon:** Yes, and for the second half?

**Cécile Arson:** So in -- so for the second half, what could change from what I said? I think there should be no major change because we will still have engineering studies to provide until the end of the year, regarding the orders we got since more than one year. So we should not expect any change in the evolution of costs. If we don't have -- if we don't receive much orders, we'll see a decrease in subcontracting costs in the beginning of next year. Maybe at the end of this year, but not that much, and -- but surely in the beginning of next year, yes. That will be the major change.

**Operator:** There is no question. We can finish the call.

**Philippe Berterottière:** Okay. Well, thank you very much.