



# **First Quarter 2015 Update**

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Cecile Arson

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### Welcome

Welcome everyone to GTT's first quarter 2015 revenues and activity update. I am Cecile Arson, CFO of GTT and I will give a brief overview of the key highlights of the first quarter and then I will be glad to take your questions. So we are going to go through the presentation. Two slides of disclaimers, I think you all understand these forward-looking statement disclaimers.

### Key Highlights

Slide 4, the key highlights of the first quarter 2015. We had a record order intake during the first quarter. 26 new orders including 25 LNG carriers, all of which are going to use the NO 96 glass-wool technology, and among these 25 LNG carriers, five are ice breakers for Arctic gas projects. Keep in mind that we had ten orders for such ice breakers in 2014 and they are all dedicated to the Russian Yamal project.

Moreover, GTT North America which is GTT's subsidiary in Houston has received an order from Conrad Shipyard for one LNG bunker barge, the first ever dedicated LNG barge for the North American market. This order is historical because it is a step forward in the formation of a local LNG supply chain for merchant vessels and also because it represents a return of both GTT and the construction of LNG vessels to North America.

On the technology front, GTT has signed a cooperation agreement with Samsung Heavy Industries for the industrialisation of its new technology, Mark V. A second cooperation agreement which also concerns the industrialisation of the Mark V technology is being finalised with Hyundai Heavy Industries.

### *Order book*

Slide 5, as you can see on the schedule, we received 26 orders during the first quarter which is a record figure. We have almost reached the figure of the full year guidance. We see between 270 and 280 orders of LNG carriers in the next decade, and all the LNG carriers that we have during this first quarter will be built by the South Korean shipyard, DSME Daewoo. DSME has developed a specific patented partial re-liquefaction system named PRS and associated to the GTT's membrane and to a gas ME-GI Engine, the combination of these technologies should improve the boil-off rate in the tank.

You also see in that schedule the American flag linked to the Conrad order for the LNG bunker barge.

If we move to slide 6, as of March 31<sup>st</sup> 2015, the GTT order book stood at 129 units, 127 vessels including the barge and three onshore storages. Yes, 126 vessels and three other onshore storage terminals, which represents an increase of 13 units compared to 114 total units in the order book at the end of the year 2014.

During the first quarter, there were 26 new orders, nine deliveries of LNG carriers and the cancellation of two LNG carrier orders at the end of 2014. The new orders give high visibility

on GTT's total revenue streams over the next years and delivering, as you can see on the chart on the upper part of the slide, our plans until 2020.

We continue to diversify the number of shipyards using our technologies. Vessels are under construction in seven shipyards mainly in Korea, but also in China, Japan and now North America. So this progress further reinforces our belief that the membrane technology perfected by our engineers is valued throughout the world.

Speaking of new evolutions, the newest evolutions of our technology, Mark III Flex, NO 96 glass-wool and L03 as well as the multi-gas technology which will be used by ethane carriers, have quickly gained traction among our customers as they represent now three-fourth of the current orders.

#### *Revenue performance*

So if we summarise the revenue performance for the first quarter of 2015, total revenues for the first quarter 2015 decreased by 7.5% compared to the first quarter 2014.

Revenues related to royalties reached €50.6 million including €44.4 million royalties from LNG carriers and very large ethane carriers; €3.5 million from FSRUs; €2.2 million from FLNG; and €0.6 million from onshore storage units.

The decline in revenues from royalties in general and in particular from FSRUs does not reflect an overall decline in revenues, but it is linked to a comparatively high first quarter 2014 and also to the pace of construction of the vessels and our revenue recognition including series effect. As an example, among the six FSRU orders, only four have generated revenues during the first quarter.

Regarding revenues from services, they grew by 48% to reach €4 million and are mainly driven by engineering studies including a specific study which could subsequently lead to a vessel new order intake and also by maintenance contracts for ships in service equipped with GTT technologies.

#### **Strategic Roadmap**

So speaking of the strategic roadmap, GTT continues to progress along this strategic roadmap. Starting at the top of this slide, the order received by Conrad for the barge and the bunker mast REACH4 is of course GTT's first step in the LNG as a fuel market.

More generally, on the development of the LNG as a fuel, you know what the rationale is behind that. Tighter governmental regulations in place since January of this year will lead the ship owners to install new systems or find new solutions to comply with stricter emissions standards.

For the introduction of LNG, GTT has the right technologies, the right technologies in terms of reliability, in terms of economics and especially because with our systems, we optimise the space and we minimise the loss of cargo relative to the installation of tanks on the vessels. On top of that we are working not only on technologies, but we are working also on industrialisation. That is turning up the right industrial organisation from the fabrication of components to new concepts developed with shipyards to facilitate the retrofit of vessels.

As for new geographies and new customers, the order for five more icebreaker LNG carriers demonstrates the ability of GTT technology to adapt to new markets with specific navigation

conditions like the Arctic. The order obtained at the end of the year 2014 for small onshore storage tanks storing liquid argon for a very prestigious scientific institution CERN is a kind of demonstrator of our capabilities in this market segment. With the orders of ethane carriers, it demonstrates our capability to store and transport other liquid gases than methane.

Moreover, the cooperation agreements signed and being finalised with two Korean shipyards aiming at the industrialisation of Mark V constitutes a significant advance in the process of introducing these new systems. So Mark V is an optimised version of the Mark III and Mark III Flex systems and it will be dedicated to the whole range of LNG storage and transportation applications, LNG carriers, small scale LNG carriers, and tanks for LNG powered vessels. These two partnerships aim at allowing the commercialisation of the Mark V technology during 2015.

And finally on the services front, we introduced in 2014 several new services: training, SloShield software, hotline and the TIBIA service. Our revenues, in terms of service, have increased at a strong rate even though it is still a small amount of our business.

Keep in mind that our subsidiary, non-consolidated subsidiary Cryovision continues to make progress and it realised a quite good performance during this first quarter with more than 20 tanks inspected and it has currently several prospects in the pipe for the next months.

#### **Order of the first LNG bunker barge for the American market**

This nice slide is the focus on the LNG bunker barge for which GTT North America received an order from Conrad Shipyards. So this barge has been entirely designed by GTT which is new, and it will be built with the Mark III Flex containment technology and will also be equipped with the bunker mast REACH4 also developed by GTT. That mast ensures a simple and safe transfer of LNG fuel to the carrying vessel.

The barge is expected to be delivered in the first half of 2016. It will transport LNG to bunker merchant vessels powered with LNG which navigate along the western coast of the United States. You see also on the slide the different partners of that project which is the result of the fruitful collaboration between GTT North America, the classification societies, the US Coast Guard and the industry stakeholders.

#### **2015 outlook**

So after this quarter completed, we are quite confident to achieve our targets for the year including expected 2015 revenue close to €227 million, a net margin of about 50% and a 2015 dividend payout of at least 80% of distributable net income.

#### **Medium-term outlook**

We remind you our medium-term guidance. As far as orders are concerned, we are contemplating between 270 and 280 LNG carriers over the next ten years for GTT. We are anticipating between 25 and 35 FSRUs and between three and seven FLNGs. We have revised also our guidance for onshore tanks. At the time of the IPO we said ten tanks over the next ten years. Now we are saying between 15 and 20 tanks over the next ten years.

As far as our revenues are concerned, for 2016 we see a growth of at least 10% of our revenues compared to 2015. However, that represents revenues of more than €250 million, and the dividend pay-out should remain of at least 80%.

Thank you for your attention. I am ready to answer your questions.

## Q&A

**Alain Parent (Natixis):** Good afternoon, everyone. I have a question about the cancellation of the two LNG carriers. Could you give some details about that cancellation? Is it about financial health of the shipyard? Is it about the clients which decided eventually to cancel the project or I do not know, the drop of the oil price and of the LNG prices? That would be very helpful.

**Cecile Arson:** Well, in fact it is an order for two LNG carriers that we received at the end of 2014 from a ship owner which name will remain confidential. The deliveries of these orders should have been 2017 and from what we know therefore these orders were not linked to an LNG project, a specific LNG project. So that is what we know. Not much in fact. Yes, that is all for the moment.

**Alain Parent:** Okay. The second question is more general. Moody's released a report recently and quite a gloomy report actually about the outlook for the LNG saying that considering the drop of the oil price, most of the US projects will be cancelled or postponed; Canada, the same. I would be quite curious to get your comments on that one as your outlook remains unchanged, so you remain pretty confident in the short to medium term.

**Cecile Arson:** Yes, for the moment, what we say is, first of all, it is quite difficult to know what the prices of the oil will be. Second point, from what we know there is no cancellation of projects, especially in the US. Some may be postponed, but for the moment we did not notice any cancellation of projects, of LNG projects. You know that LNG projects need a very long-term contract, often until 20 years to be financed. So this is the reason why we think that these US project should go on even if some are postponed.

Moreover, you know that most of the US projects are brownfield projects where the liquefaction trains are to be built, but they are far less expensive than greenfield projects. So this explains why we are not revising our guidance for the moment in fact.

**Alain Parent:** Okay. In terms of commercial activity right now, have you noticed any change, significant change since we spoke when you released the full year results? Has it deteriorated, is it the same or...?

**Cecile Arson:** Well, during the full year results, I think that we were at 19 orders or something like that. So you see that we received six more plus the barge. We knew that we had an exceptional order intake during the two first months of 2015. We knew that it would not last for the whole year. So we do not know what that presumes for the remaining part of the year.

**Alain Parent:** All right. Thank you very much.

**Cecile Arson:** However, we have some prospects for the moment.

**Alain Parent:** Thanks.

**Cecile Arson:** You are welcome.

**Guillaume Delaby (Société Générale):** Yes, good evening. Two simple and relatively housekeeping – or not so much housekeeping questions in fact.

First, regarding services, plus 48%, the level of Q1, does it assume that you have reached a significant milestone and that every quarter we should be roughly more or less to this level on a normalised basis, or is it exceptional?

So you mentioned regarding Cryovision that 20 tanks have been inspected. Can you give us a little bit more numbers on that? Thank you.

**Cecile Arson:** Okay. So the growth of 48% you see here, we could say it is quite exceptional in fact and it is mainly due to a specific study that we received during the first quarter. So we do not think that this would last each quarter or during the whole year. Moreover, it is a specific study that we are providing and which could lead to a new order of a vessel. So it could be some royalties in fact; transferring to royalties if we have the order.

Speaking of Cryovision, well, I will not give you the level of revenues because the figures have not been audited, the figures that we are going to disclose. You can have in mind that last year Cryovision inspected about 55 tanks.

**Guillaume Delaby:** Okay, that is very useful. Okay, thank you very much.

**Cecile Arson:** You are welcome.

**Jessica Alderson (Morgan Stanley):** So my first question was around your acquisition strategy. I know you said at your full year 2014 results that you were considering some acquisitions around LNG as a bunkering fuel. I was just wondering if this is still the case, are you still looking for those opportunities? Thank you.

**Cecile Arson:** Yes, of course. Of course we are still looking for opportunities, but for the moment, nothing new.

**Jessica Alderson:** Okay. So you have talked about LNG as a bunkering fuel before and on a longer time frame you have talked about it out to 2024. Do you still think that the take off of this market will be more back-end weighted or are you seeing signs that it might be sooner rather than later? I know you have got one order this year and I was just wondering what your thoughts are around that.

**Cecile Arson:** Well, it is true that the order we received is a very good sign and it may lead to subsequent orders linked to that particular one. The fact is that we see that this market could start more quickly in the US than elsewhere. However, frankly speaking, the decrease in oil prices is not that good for that market because switching to LNG is economically less interesting for the moment. So you see that there are some pros and some cons for the moment on this nascent market.

**Jessica Alderson:** Okay, yes. Thank you very much.

**Alexandre Leroy (BPI):** Good evening, everybody. Good afternoon. I have some questions.

First of all as a follow up from Guillaume's question, out of the €4 million of services revenues, can we say that half of the €4 million, or let us say €1.5 million, are non-recurring? I am trying to get a bit more colour on what we can input there as a recurring basis story.

**Cecile Arson:** It is hard to say. Well, without the specific order we have – what could we say? Maybe the growth would be about 10% to 20% instead of 48%.

**Alexandre Leroy:** Okay. Thanks, very clear. I have another question relative to the speculative boat that you were mentioning before. Out of the 129 units you have today in your backlog, or let us say, let us take more the LNG and the larger tank carriers, out of the 116 that you have got in the backlog how many of them you believe could be speculative and then let us say, more prone to be cancelled in current pricing context?

**Cecile Arson:** I will not give you any figure on that, but it is not significant. It was the case in 2011. After the Fukushima catastrophe, we knew that many orders we had got were speculative. It is less far the case today.

**Alexandre Leroy:** Okay, very clear. Maybe let me try this one. Can we get maybe a bit more colour on the size and the price of the barge in this new market that is rising in order to help us to model what would be going forward these new figures?

**Cecile Arson:** Well, the barge, the volume of the barge is 2,000 cubic metres, and you may know that we invoice our royalty according to the square metre of membrane installed. However, I will not give you any figure about the revenues coming on the barge, sorry.

**Alexandre Leroy:** Okay, but in any case it is 2,000 cubic metres, very good.

Maybe a last question: When we have a look to the historical installed base of onshore tanks, there is a big discrepancy there in terms of size. What do you call a large onshore tank? For you what is the capacity of a large onshore tank?

**Cecile Arson:** It is about 80 to 100,000 cubic metres.

**Alexandre Leroy:** 80 to 100,000 cubic metres.

**Cecile Arson:** Yes, about.

**Alexandre Leroy:** Okay, and the last but not least, what this cooperation agreement on Mark V will change in the competitive landscape. Is that to ensure you are this close to 100% market share? I struggle to understand what will be different from before basically. Is that trying to get an edge against the KC1 technology that these guys are themselves developing? What is the change there?

**Cecile Arson:** No, I do not think it is really an answer to the SCA technology or KC1 or any other technology. You know that our market share is mainly explained by the fact that we are always improving our technologies and trying to improve the thermal capability, and that is the case with Mark V.

So what is interesting in that industrialisation agreement is that you see that Samsung is continuing working with GTT, and that proves that they are not that relying on their own technology. That is the point. However, on the competing matters, well, improving our technologies is a way for us to keep the market share we have. That is true.

**Alexandre Leroy:** Okay. Thanks a lot, very clear.

**Cecile Arson:** It is okay? Okay.

**Alexandre Leroy:** Perfect.

**Alain Parent (Natixis):** Sorry, it is me again. I missed the beginning of the call, so could you explain a bit the reason for the decrease of the revenue in terms of royalties? I am sorry.

**Cecile Arson:** In fact you know that our royalties are linked to the pace of construction of vessels and that is the reason why it is not linear in the year. As an example- but it is only an example - among the six FSRU orders that we have currently, only four have generated revenues during the first quarter because the two other orders because of the series effect do not generate revenues for the moment.

So according to the date of orders or according to the date, the ship's date of delivery, we may have some changes or some variations in our revenues that may explain the decrease in comparison to what we have got last year. Moreover, last year we had an especially high number of vessels generating revenues. So the comparison basis was high in fact.

**Alain Parent:** So this is mainly a series effect, when you say that this -

**Cecile Arson:** Series effect and milestones of construction.

**Alain Parent:** Okay, and should we read into the milestone of construction the fact that clients are asking the shipyards to take more time to build the vessels because they do not see the market at the end?

**Cecile Arson:** It may happen. It may happen, but it is not the general reason for that. I mean for this variation in revenues.

**Alain Parent:** Okay, thank you.

**Cecile Arson:** Okay, thank you very much. You are welcome. Thank you. Bye.

[END OF TRANSCRIPT]