FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning everyone and welcome to Technip's first quarter 2011 results conference call. As a reminder this conference call is being recorded. At this time all participants are in listen-only mode. Later there will be a question and answer session. I would now like to turn the call over to your host for today's conference call, Mr. Thierry Pilenko, Technip Chairman and CEO. Please go ahead sir.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Good morning ladies and gentlemen, and thank you for participating in Technip's conference call. I'm Thierry Pilenko, Chairman and CEO, and with me are Bernard di Tullio, our COO; Julian Waldron, CFO; Arnaud Real, Deputy CFO, as well as Kimberly Stewart; Apollinaire Vandier, and the newest member of our Investor Relation team, Chuan Wang.

I will turn you over to Kimberly who will go over the conference call rules.

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Kimberly Stewart - *Technip SA - VP, IR*

Thank you Thierry. I would like to remind participants that you can download the first quarter 2011 results press release and presentation on our website technip.com.

Statements in today's press release, as well as those made during the conference call, which are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Report Act of 1995. Readers and listeners are strongly encouraged to refer to the disclaimers which are an integral part of today's press release and slide presentation.

Also, a replay of today's call will be available on our website approximately two hours after the call ends. I now hand you back to Thierry.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Thank you Kimberly. I'll be going over Technip's first quarter operational highlights during the first part of this presentation before handing you over to Julian.

So for this conference call I'll just highlight a few of the major projects that contributed to our results in the first quarter. So you'll find more extensive details in our results in the press release.

So starting with the Subsea segment, we successfully closed the Jubilee project in Ghana. We also completed the West Delta Phase 7 project the week before the political unrest started in Egypt.

During the quarter, as many of you have noted, we mobilized resources to assist our client on the Cascade and Chinook project in the Gulf of Mexico after one of the buoyancy cans detached from the rigid risers. We continue to help the client and US authorities to identify the root causes and put in place all the corrective measures needed. But as of today we are quite advanced in the investigation and remediation.

Offshore operations continue to progress on Block 31 in Angola where main operations were completed; while on Pazflor in Angola as well, we installed our most advanced flexible pipe technology, integrated production bundle with the Deep Blue and the Deep Pioneer vessels.

In the North Sea we started the pipe-in-pipe installation on Marulk, with the Apache 2, and the manufacturing of the heated and reel pipe-in-pipe, which progressed well on the Islay project.

Work started on the smoothbore risers for the Jura project and in Australia, offshore operations started on CWLH project.

So during the quarter our pipe lay assets were very busy. Our DSVs less so, and Julian will come back on that in a minute. The load in all our manufacturing plants has been good, with also a good ramp up of activity in Asiaflex.

Now turning to slide five, for those of you who are looking at the slides, our combined onshore/offshore results reflect a solid performance on several small and medium sized contracts, including the completion of Offshore Associated Gas project in the UAE and the FEED for the large Wheatstone platform in Australia, for which we are now working on the detailed engineering.

So we moved ahead with commission activities on Neste Oil biodiesel plant in Rotterdam and on the P-56 semi-sub offshore in Brazil.

In Turkmenistan, Block 1 Gas development project, we completed the installation of the gravity based structure and the topside floater of the offshore.

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In Jubail, in Saudi Arabia, the Jubail project, civil and mechanical works progress well. Same thing on the Asab 3 in Abu Dhabi, and engineering and procurement is progressing well also on the PMP project, PMP gas project, in Qatar.

FLNG FEED activities substantially progressed for the Shell Prelude field offshore Australia, and we started the FEED, the FLNG FEED, for Petronas for offshore Malaysia.

Turning to order intake, total order intake was EUR1.3b during the first quarter is reflected in the total backlog of EUR9b, slightly over EUR9b. We recorded particularly strong subsea order intake of EUR736m with a commercial success particularly in Brazil with flexible pipe supply for pre-salt and traditional development, as well as North Sea, Canada with pipe-in-pipe and proprietary smoothbore technology.

We also were awarded some components of the Marine Well Containment System, the first components of the Marine Well Containment System, for the Gulf of Mexico and the first flexible supply contracts dedicated to Malaysian fields which will be manufactured in our new Asiaflex plant.

The order intake for onshore/offshore was EUR557m in the first quarter. The geopolitical events in North Africa have actually pushed a few awards out. And order intake, however, included a contract for the extension of the Cubatao refinery in Brazil, and several strategic fields that I will cover later.

I'll turn you over now to Julian, who will go over the financial highlights.

Julian Waldron - *Technip SA - CFO*

Thierry, thank you very much. Good morning everybody. So if I can go to slide eight please, Group financial highlights. So the first quarter was a good quarter for Group revenue growth, up 9% which is in the middle of our full year growth objective.

Revenue movements between segments and quarters will continue to fluctuate a little bit year on year through the quarters around that overall objective. For example, I think the second quarter might be slightly slower in terms of growth, but later in the year we get much further into the construction phases on Jubail, as well as some of the other projects Thierry mentioned, and we start procurement on some of our more recent larger projects.

In the first quarter 2011 currency movements were positive and in general I think all main currencies were up against the euro compared to the first quarter 2010.

EBITDA and operating margins were down by half a point. The key driver here, I think, is mix; more onshore/offshore compared to subsea.

The minimal items between the operating and pre-tax lines, currency impacts were EUR7m negative, which offset most of our interest income. Tax rate was 28%, a little better than our run rate expectation of 30% and we continue clearly to work on that line of the P&L.

Turning to slide nine and looking at the segment financial performance, subsea revenues declined 6%. This reflects a couple of things. First, we had a lower overall vessel utilization compared to a year ago. It was at 65%. As Thierry mentioned, utilization of pipe lay vessels was very high. All of the major vessels of the fleet were well occupied. The Deep Blue is now back in the Gulf of Mexico, and has started spooling on our first project there, and has got a very full backlog for the rest of the year.

By contrast we had low utilization again on diving support. For this quarter though I think one of the key elements is dry dock days. We had 95 days in 2011 quarter one compared to 58 days in the first quarter 2010.

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The next point I'd mention is we did have lower revenues at our Victoria plant. We had a partial shutdown from the beginning of January and that probably cost us around EUR40m of revenue in the quarter in subsea, with clearly no financial contribution against those revenues.

With those things in mind, operating margins were better than our expectations at 16.8% and that reflects good progress on most ongoing projects and a modest contribution from the Jubilee close out, and that project now enters its warranty phase.

Onshore/offshore we had good growth; 23% in revenue. The weight of newer projects, notably Jubail but also Asab and PMP is showing well through the revenue line.

Operating margins were good across the two segments with onshore particularly strong. There was no one contributor to the onshore margin. The profit came from a very wide range of the smaller and medium sized projects, which advanced well. At this stage, none of those three larger ones, Asab, PMP and Jubail, are contributing materially to the bottom line.

Offshore was in profit, even if activity was still slow at the Pori yard.

Corporate costs were up year on year. This represents --- this is the consequence of a swing in stock option and other share-based payment costs. We had a small positive impact last year and we're probably EUR5m or EUR6m negative thanks to that this year, and that explains the delta year on year.

Overall therefore, with the first quarter revenue growth in line with our full year objective, margins somewhat ahead of our guidance and an order intake, particularly in subsea, which we view as good for this time of the year. We're able to confirm our full year guidance which, as you'll recall, we revised up in mid-February.

Turning to the balance sheet on slide 10, cash remained fairly stable at the end of the quarter. Positive operating cashflow was offset by a further decline in our construction contract balances.

CapEx was modest in the quarter, but there's no change to our expectation to spend just over EUR400m in the year absent any new investments and those may come. Thierry might comment, for example, on the Brazil PLSVs later in the call.

In the second quarter we'll pay out our dividend and we'll also reimburse the 2004 bond that we refinanced last year. Accordingly, gross cash will drop in the second quarter.

And with that, I'll hand you back to Thierry to cover strategy and outlook.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Thank you Julian. So turning to slide 12 and to strategy implementation, priority continues to be to build our capability in subsea, notably through the expansion of our resources in key countries and areas. So the investments we have announced, or put in place over the last six months, represent a major step in that regard.

In Asia we have now a full set of assets and relationships with Malaysia as our hub. The construction contract for our Asian flexlay new build vessel, which is scheduled for delivery in 2013 has now been awarded and this vessel should be in operation by the end of 2014 --- '13. We are pleased to confirm the availability of grants to help the economics of our steel tube umbilical capabilities that we plan to do in our plant in Newcastle.

On a smaller scale, but very strategically, we have begun to expand our logistic capabilities in Angola and particularly our [carousel] capability for umbilicals. We expect this to help us with the upcoming tenders, not just in Angola but also in the rest of West Africa.

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In Brazil, we have announced a few months ago a second flexible plant and believe the recent new tenders and awards for both subsea installations and pipelay flexible vessel support the importance of this investment, and I'll come back on that later on.

I also confirm that we expect to respond to the Petrobras multiple pipelay vessel standards that we received a few months ago.

We would also like to take this opportunity to let you know that we will be hosting a field trip to our flexible pipe manufacturing plant in Victoria in Brazil the week of September 26. Our Investor Relations team will provide you with more details in the coming weeks.

Coming back to first quarter results, on slide 13 you have a summary of the different types of orders that have been taken over the past six months and we generally split our contracts into three categories -- strategic FEED or service contracts, flagships or large contracts, and then smaller or medium-sized lump sum contracts.

Those feeds are very important as the longer-term entry points into new market segments or large contracts. So our flagship contracts show the extent to which this targeting approach is working in practice. Smaller and medium-sized lump sum contracts are important for volume and to a threshold of solid foundation of diversified and profitable contracts. So on slide 13 we have illustrated all the contracts since October 2010. I will not go through all of them, but I'd like just to highlight a few.

First, in Mexico we were awarded an onshore Ethylene FEED project based on Technip's proprietary technology.

Worldwide we also signed strategic FEEDs, including two floating production units for Gendalo-Gehem in Indonesia and Upper Zakum 750 plus which could become a very large offshore brownfield gas development in Abu Dhabi, as well as several mid-size projects including Hibernia in Canada, and Cubatao refinery in Brazil as mentioned before.

So in real numbers we have increased the visibility of both our 2011 revenue, which is now covered above 80% across the board and for 2012 and '13 where the majority of our first quarter subsea order intake shows up.

Now, turning to slide 15, let's have a look at the business environment. In fact over the past two months since our last conference call our views on short- to mid-term market conditions has changed only slightly. We remain confident in our ability to expand our business, even if geopolitical events in North Africa resulted definitely in some slowdown on projects such as Phase A on West Delta Deep Marine in Brazil --- in Egypt, sorry. But this project is now moving forward. But uncertainty remains in North Africa as to when new projects will be awarded.

Activity has resumed slowly but steadily in the Gulf of Mexico with the first drilling permits now being granted and in general, prospects for gas development worldwide look much better than a year ago. In general, we believe that the slowdown in nuclear projects, combined with political uncertainties in major producing countries, will encourage the oil and gas operators to diversify their geographical portfolio and we have clear signs of this today. This combined with robust price could stimulate major investments in more challenging and technology-intensive environments.

So thanks to our expanding geographical footprint, focused on strategic FEED and investment in technology, our pipeline of projects and prospects remains robust. And we are actively discussing numerous potential significant projects with clients throughout the world.

So within this business environment we will continue to focus on a balanced portfolio, on sustainable and profitable growth and the strategic priorities of Technip remain the same.

Accordingly, based on this encouraging first quarter result and order intake, we maintain our full year 2011 financial objectives, with a subsea margin to be above 15% and onshore/offshore margin between 6.0% and 6.5%.

With that I will now like to turn the call over to participants, to answer the questions you may have. Thank you.

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QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. (Operator Instructions). One moment please, for the first question. The first question comes from Mr. Alexandre Marie from Exane BNP Paribas. Please go ahead.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Hi, good morning everyone. I've got a few questions please. First, on your revenues. I think Q1 revenues were well below the run rate which is implied by your guidance and yet guidance is maintained and I think it's comfortably covered by your backlog. So presumably, the next three quarters revenues will be much higher than in Q1. So I'd like to know, to have a bit of color if possible on the ramp up in revenues and what explains this ramp up through the year. Are there any particular projects kicking off during the year, or is it a mix of things?

And second question is on Brazil. Could you please remind us why Technip was not invited to bid on the Guara EPIC contract? Is that correct? And should we expect Technip to bid on EPIC contracts in Brazil in the future?

And finally, on the offshore division, I'd like to know if you're seeing any progress on spar orders. I think BP and [Anadoc] were both considering spars for the Mad Dog and Lucius projects. So where do we stand on that side? Thank you.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Okay, I'll ask Julian to answer the question on revenue increase and guidance for 2011.

Julian Waldron - *Technip SA - CFO*

Alex, good morning. Thanks for your questions. So, sequentially, as we move into the summer period we have more business for the vessels. So that will be one indicator, in particular Q2/Q3. I think more important is the ramp up in the construction phases of, in particular, Jubail and a little bit Asab, PMP; the procurement phases on other newer projects, for example, the Algiers refinery.

In Jubail in particular, the workforce on the plant roughly doubles over the next four months as construction ramps up. So you can see the impact that that will have on progress as you move into the second half of the year. So those I think are the major factors which drive the revenue movement.

I would say though, just to come back with 9% growth that's pretty much bang in line with where we expected to be for the full year. Thierry?

Thierry Pilenko - *Technip SA - Chairman and CEO*

Yes, answering your question about Brazil, it is true that Technip was not invited in the design competition for the rigid risers on Guara. But I would like to explain a little bit what's happening with the development of Guara and Northeast Lula.

The rigid part of the development of that field is only one part and I would say, in terms of kilometers, a small part compared to the flexible part of that field, which will include all the flow lines for flexible as well as some injection line which will be flexible.

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And we actually received the tender a couple of weeks ago for Guara which consists in several hundred of kilometers, of flexible lines for this field.

So we start to see that there is a movement towards awarding a large supply project to start with of flexible pipes, to develop those pre-salt fields as we mentioned several times in the past in our conference calls.

So the rigid part of the development is for production risers as well as some injection --- gas injection lines. So it doesn't mean that Technip is not considering EPIC projects in Brazil. Actually, if you look at the recent awards over the past six months in Brazil we announced BC-10 development, which is an EPIC contract led by Shell. And we also announced [Capesha Bartrofondo] which is another EPIC contract that follows the successful completion of the gas export line that we did last year with our joint venture partner Allseas.

So, no, it is just a question of you know choosing a certain contractor for certain types of jobs, but we are definitely in the game. And we believe that increase of capability in flexible manufacturing in Brazil fits very well with the demand that's coming from Petrobras in particular for the subsea development.

Now going back to offshore, the market in the Gulf of Mexico is picking up again slowly but surely. And there are a number of platforms that are going to be awarded over the next 18 months or so and we expect that for some of these platforms the spar design is going to be selected. I cannot speak in details of which clients are going to choose which design, but definitely traditional spar users are going to move forward with the design and the fabrication of those floaters.

Alexandre Marie - *Exane BNP Paribas - Analyst*

Thank you

Operator

Thank you. Our next question is by Mr. Tom Hagerman from Barclays. Please go ahead sir.

Tom Hagerman - *Barclays - Analyst*

Yes, good morning. A couple of questions please. First of all, it looks like you had very good order intake for the North Sea season. I was just wondering at what sort of capacity utilization you are now looking in that area? Or, in other words, how much capacity is still available to fill up with reel spot work?

Then secondly, just looking at the subsea guidance, I think a year ago we had the exact same guidance for 2010 and we had a pretty similar start to the year in both years. So I guess I'm just wondering what could really drive margins lower in the remainder of this year? And also, in that context, can you comment on whether you expect any impact at all from the Cascade-Chinook issues?

Thierry Pilenko - *Technip SA - Chairman and CEO*

Okay, I'll let Julian answer the second question but I'll answer the question on the North Sea activity. And as you noticed, and as we announced already a few quarters ago, we saw a number of tenders turning into awards in the North Sea area.

I remind you that during the downturn in 2009 the North Sea was the area which was the most affected by the downturn, although you may not have seen it in our results because our portfolio was well balanced with other regions. But as the business

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picks up, the North Sea is also the fastest area to pick up and the area in which we see the biggest momentum, with the exception of Brazil at this stage.

So what does it mean? It means that for pipelay capacity, I think in the North Sea there is extremely good activity and extremely good visibility.

As far as DSV vessels are concerned, and you have seen that in our numbers, the utilization has been lower and --- but the DSV market is much more a spot market and we will be able to tell you a little bit better at the end of Q2 whether this market picks up in line with our expectation.

But so far, it has been pretty positive and in fact this is a part of the world where we have started to see also some pricing momentum because of the capacity utilization.

Julian Waldron - *Technip SA - CFO*

So just, Tom, turning to your second question on subsea guidance, we were --- we raised our guidance about six weeks ago so ---

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Tom Hagerman - *Barclays - Analyst*

Yes

Julian Waldron - *Technip SA - CFO*

I think it is a little early to look at it again. Clearly we've outperformed in Q1. There's been no particular one-off which has driven that. It's generally I think good performance. So we'll continue to work over Q2 and Q3 to see if we can do better than our guidance.

As far as Cascade is concerned, I think as Thierry said, I think the important thing is that we were very well advanced as we closed our books in identifying the root cause and identifying therefore what impact that might have on us. And I think we're satisfied that at the end of the quarter, and as we look forward, there's nothing there which we need to highlight to you at this point. And we don't expect to have to.

Tom Hagerman - *Barclays - Analyst*

All right, great, thanks a lot.

Operator

Okay our next question is by Mr. Geoffroy Stern from Cheuvreux. Please go ahead sir.

Geoffroy Stern - *Cheuvreux - Analyst*

Yes, good morning. You mentioned that Technip is actively discussing numerous potentially significant projects with your clients. I was wondering if you could be a bit more specific and in terms of timing as well?

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And then I have a question, a financial question. With regard your financial results in Q1 you mention a EUR7m gain in Q1 stemming from ForEx and derivatives which basically implies an underlying cost of debt of a bit more than EUR8m, which seems quite a jump compared to previous quarters. So I was wondering if you could elaborate a bit on this please.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Okay I'll take the first question about timing of projects and types of projects. What I'd like to say is that we have continued to diversify our customers and our portfolio over the past two/three years and we are expecting projects all the way from Asia to Middle East, North Sea, Latin America and North America. It's really across the board, projects of different sizes.

Now, as far as timing is concerned, some of them could come in Q2, some in Q3. What I would like to say is that in general the projects coming from the Middle East --- I'm talking about --- when I talk Middle East I'm talking about the Gulf countries, are coming at schedule which is like clockwork generally. Our clients tell us we're going to bid such and such project, we're going to award at such and such date, and this is coming pretty much on target systematically.

When it comes to projects in Southeast Asia or in Latin America there is always a little bit more uncertainty about the awards. But given the number of FEEDs and bids that we have been working on, I think we should have a reasonable flow of projects in both Q2 and Q3. But I will not be specific about a specific country or a specific project at this stage because we are still in competitive situation on these projects.

Julian Waldron - *Technip SA - CFO*

Okay for your second question, financial expense was EUR5m in a quarter a year ago and was EUR8.6m, close to EUR9m, in the first quarter this year, reflects one major thing which is that we have more gross debt and that gross debt is going through the P&L as you know at just over 3.5%. So you just have an additional quarter on the convertible bond issued in November. Once you get through the second quarter and you've repaid the 2004 bond then that will drop back again. So it's just an impact of the gross debt at this stage.

Other than that, as we've commented a few times on these calls, the mark to market of the IFRS impacts is pretty volatile quarter on quarter. It's been negative. It's been positive. It generally evens out over the year. But the financial expense is up because we have more gross debt and that will correct itself as we repay the bond going through Q2.

Geoffroy Stern - *Cheuvreux - Analyst*

So it will come back to EUR5m on average?

Julian Waldron - *Technip SA - CFO*

Yes, it'll come back to a normalized level. A little bit below where it used to be because the average cost of debt going forward will be a little bit below the average rate on the 2004 bond.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Geoffroy, I'd like to give a little bit more color on the projects that we expect during the course of this year, in particular, on the onshore side --- onshore/offshore side.

First of all, as you've probably noticed over the past two years, our portfolio of projects went from gas to refining and I think we're going to continue to see projects in refining in the next few quarters because we are bidding on several projects. And, as

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well as petrochemical and more downstream projects which I think is something very important, as Asia in particular is building up petrochemical capability.

Now, the other interesting news is that we see a number of LNG projects, including floating LNG, gaining momentum. So we can see that probably within 12 to 18 months a good part of our portfolio could be again focused on gas.

Geoffroy Stern - *Cheuvreux - Analyst*

Okay, thank you.

Operator

Thank you, our next question is from Miss Fiona Maclean from Merrill Lynch. Please go ahead.

Fiona Maclean - *Merrill Lynch - Analyst*

Yes, thank you. It's Fiona here. I have a couple of questions. Firstly, just going to that point on LNG, can you try and be a little bit more specific on when you expect the Shell project to go --- get given the go ahead in Australia?

And then, secondly, an onshore question. There's been a lot of talk over the last year quotas about the amount of pricing competition that's been coming from the Asian companies. Could you make a comment on what type of pricing environment you're seeing just amongst the European names?

And thirdly, could you just confirm exactly why you had lower utilization in the Brazil plant? Why was the plant down in some of the first quarter? Thank you.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Okay. Starting with LNG and floating LNG, as I said, we have significantly progressed with the Shell FEED project on Prelude. The decision -- on final investment decision is obviously not our decision but Shell's decision and is based on a project which does not just include a floating LNG element but drilling, development of the field, and a gas contract. So I think it's probably a question that you should be asking Shell.

But I would say that in general, given the number of floating LNG projects that we have been working on, we see that there is extremely strong momentum for all these projects. And that's all I would like to say at this stage on floating LNG.

On the onshore side, I don't think there has been a significant change in the competition landscape since six weeks ago in terms of the focus of some of the Asian competitors on projects in the Middle East in particular. And I think the pricing is still low in general. And that's why it's very important for us to continue to diversify our portfolio. And as you have noticed, we've been winning contracts in areas where we felt we had either less competition or at least a better chance to win at reasonable margins. But I don't think there has been any significant change in terms of the intensity of the competition compared to six weeks ago.

Julian, talk about --

Julian Waldron - *Technip SA - CFO*

For Vitoria, we had an accident, a problem with the load out of reels in early January. On the back of that, we shutdown part of the plant to assess the cause of that, do the repairs and also to make some modifications to the way the plant functions. And

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that's ongoing and should be completed towards the middle of May; will enable the plant at that point to get back up to full production. As I mentioned, I should think the revenue impact in the quarter was around about EUR40m.

Fiona Maclean - *Merrill Lynch - Analyst*

Okay. Then thank you very much.

Julian Waldron - *Technip SA - CFO*

Thank you.

Operator

Thank you. The next question is by Mr. Macpherson from Simmons Company. Please go ahead, sir.

Ian Macpherson - *Simmons Company - Analyst*

Thanks. Thierry, can you answer the same question as the last one but with regarding subsea and how you see the leading edge pricing environment for major surf contracts compared to those that were awarded, for instance Clove and other contracts that were awarded in the past 12 months? Is it flat, or is it moving?

Thierry Pilenko - *Technip SA - Chairman and CEO*

Well, I think we are typically at the beginning of cycle. And when activity picks up again, you're in -- you see a very patchy situation when you compare region to region. As we said before, we have started to see good momentum, both in terms of activity and in terms of pricing in the North Sea. However, in Asia, for example, the competition continues to remain pretty fierce. So we haven't seen a significant change there.

In Brazil, this is very much capacity driven. And over there, it's good pricing momentum as well.

Ian Macpherson - *Simmons Company - Analyst*

Okay. But --

Thierry Pilenko - *Technip SA - Chairman and CEO*

And --

Ian Macpherson - *Simmons Company - Analyst*

Sorry. Go ahead.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Yes, and in terms of margins, what you also need to understand is that the smaller the project, generally the faster the decision process. And in particular, in the North Sea, you bid things, and they can be awarded within three to four months.

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When it comes to the much larger projects, sometimes the bidding process can last 12 to 18 months, sometimes even more. For installation, that could be two to three years from the time of the award. So I would say on the very large contract we continue to see more competition than on the smaller ones. So I would expect that we could see better pricing on average on smaller projects than on the large projects.

Ian Macpherson - *Simmons Company - Analyst*

Got it. That makes sense. Thanks. A quick follow up with regard to the new build centers for the pipelay vessels for Petrobras, can you just remind us how you think about returns on new build capital and how these -- the opportunity on these contracts compares with how you thought about returns on new vessels previously?

Thierry Pilenko - *Technip SA - Chairman and CEO*

Okay. Well, I'll describe first what those vessels are so that you get an idea of the opportunity and then I'll let Julian answer the question on return on capital.

So the tender that we are talking about is about six flexible pipelay vessels with a different top tension capability. The top end tension for two vessels is 550 tons, the next two are 300 tons and the last two are 250 tons. You cannot bid, or you cannot be awarded more than three out of six. And the smaller ones, 300, and 250 tons have to be built with a high local content; more than 50%, 51% local content in Brazil. The two high-end vessels, 550 tons, can be built outside of Brazil and most probably will be built outside of Brazil.

So at this stage, we have the intention to bid on certain of these vessels, depending on the other variability, partnerships, financing, and so forth. And the bid due date has been postponed several times already. But I do expect that there could be a decision sometime this year because about three of these vessels are scheduled to replace existing pipelay vessels that are going to be too old by the time the new ones are built.

In terms of return on capital, Julian?

Julian Waldron - *Technip SA - CFO*

Ian, good morning. A couple of comments on returns on the CapEx. First of all, we maintain the 15% across the cycle is the return, the full return we expect from subsea. So these vessels need to fit into that framework.

Secondly, we need to bear in mind that these vessels will go on charter. So the risk associated with those -- with the return on the vessels is going to be lower than if you're building a vessel for the spot market.

And thirdly, the returns that we expect to get from the vessels, from these sorts of vessels is in part direct from the vessel itself but also comes from the related business, whether that's flexible pipe production -- and these vessels are essentially driven around that -- whether it's the logistics and support activity around the vessels, and so forth. So those are the key things into which -- that we put into the assessment of what the right return is.

I think three -- six weeks ago, three months ago, we were at the stage of saying we don't know whether we can get an acceptable return. We still don't know whether we'll win, clearly. But we believe that we could bid and deliver a good vessel for the client, which will deliver a good performance on projects and earn a return in line with what we need. So that's the reason why I think we can confirm today that we're looking to bid on a couple of those vessels.

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Thierry Pilenko - *Technip SA - Chairman and CEO*

Again, coming back to the strategy for Brazil, as you have probably noticed, over time, we went from flexible production to logistics with not only the award of logistics contracts, but also the acquisition of [Ongaporteau], which is a very strong base for logistics.

We also went to long-term charters because we noticed that when we control to some extent a charter and a vessel and the capability of a vessel, that helps debottlenecking the entire supply chain. And we're also on EPIC contract, as I said before.

So again, for us, to have a certain number of vessels in long-term charter in Brazil is a way to have a balanced portfolio in a market that continues to grow and which is going to be particularly key for the 550 tons, which are going to be extremely useful -- well, actually, necessary for the installation of the (inaudible) of the result, given the large diameter that we expect that we'll have to use in the [Person de Porta].

Ian Macpherson - *Simmons Company - Analyst*

Great color. Thanks very much.

Julian Waldron - *Technip SA - CFO*

Thank you.

Operator

Thank you. Our next question is by Mr. David Thomas from UniCredit. Please go ahead, sir.

David Thomas - *UniCredit - Analyst*

Yes, good morning. Dave Thomas at UniCredit here. A couple of questions, please. Firstly, in the flexible pipe market, can you say how you see the competitive landscape? And are you seeing any evidence of more aggressive marketing from Wellstream not that it has been motored to GE. And do you see Prysmian being a competitor for projects like Guara?

And then secondly, back to your margin guidance I'm afraid, but the onshore margin was very strong in the first quarter, not just in onshore but in onshore/offshore. What were the key drivers for this and what can we expect for the rest of the year, given that I think you've said that you now expect to be booking income on some of the major projects like Jubail and Asab as of the rest of 2011? Thanks.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Yes, I'll answer the question about the flexible pipe. And obviously, we see the market for flexible pipe strengthening and growing, probably even slightly beyond our expectations in terms of size and driven mostly by Brazil, but not only by Brazil because, as we have announced, we start to work at full capacity in Asiaflex as well. And we have good visibility in all our factories.

So the market is going to be strong. And we see very large awards coming for the development in Brazil. Obviously, for these contracts, we will have mostly the competition of GE or ex-Wellstream. But at some stage, I think everything will be driven by capacity and capability. And probably more than capacity, we have to look at capability, for example, for either large diameter pipes or very high-depth pipes, 3,000 meters plus, which we have qualified. So there will be competition, but the competition is going to be technologically driven as well as capacity driven.

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As far as the pricing strategy from GE is concerned, I think it's too early to say. But I would probably assume that in a market where visibility is increasing, GE is going to have a very reasonable pricing strategy. I think it's more a question for them than it is for us. But I wouldn't say that we have seen yet the impact of the new management team or management style.

For the margin guidance, Julian?

Julian Waldron - *Technip SA - CFO*

So, David, thanks for your question. On onshore/offshore, the profitability of the business over the last couple of years has really been made by a very solid contribution from a very wide range of projects. So underlying the revenue line is a good capacity utilization for our engineers in all of our operating centers. And we continue to have good visibility on the utilization of those engineers. That's one of the important parts of winning FEEDs and winning service contracts.

Secondly, the diversification of the backlog geographically in terms of type of project, customer, the mix between reimbursable, lump-sum engineering procurement and for lump-sum turnkey has been improved over the last couple of years. And that as well is driving a good return. So there's no particular standout in the quarter, a good performance in onshore across the board.

Offshore is slower and lower in terms of margin, principally because of the lack of activity in the moment in our Pori yard. That's been a recurring theme of the last few quarters. We've taken some steps to take cost out of that yard. But we would still be looking to order intake in particular, as was commented earlier on the call, to, for example, the spar market in the Gulf of Mexico as being one of the drivers in improving the offshore performance.

For the rest of this year, I think at this stage, after one good quarter, it's too early to change the guidance. So the guidance is maintained for onshore/offshore combined at 6% to 6.5% in terms of margins. Clearly, we always look to do better if we can. But we've started the year well, now we need to continue for the last three. But there's been no particular driver for that.

I think as far as the larger construction contracts, Jubail, Asab, PMP, they will continue through the year to be much bigger drivers of revenue than underlying profit growth because they'll still in the overall scope of their advancement be at -- not at an early stage, but in the mid phases rather than towards the end. And you know the way that we recognize profitability on projects tends to be quite backend loaded. So we'd still expect those to be more revenue than profit drivers during the course of this year.

So the profitability will continue to come from the very broad range of small and medium sized projects much more than anything else.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Well, what I'd like to add to the onshore/offshore is that in terms of execution, we have seen a massive shift of resources from onshore projects to offshore projects. And that's very important to be able to keep that flexibility. That's been driven by obviously the award of several FLNG FEEDS, but as well as projects like KGO, which is in the neutral zone in the Gulf, or Mariscal Sucre in Venezuela, or Wheatstone in Australia.

So I think it's -- you can expect that in the next few quarters you're going to see the offshore revenue grow. But it's corresponding to this transfer of resources and then the focus on some projects and the success that we have had on winning some lump sum projects in the offshore business.

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David Thomas - *UniCredit - Analyst*

That's very helpful. Thank you.

Julian Waldron - *Technip SA - CFO*

Thank you.

Operator

We have time for a few more questions. Our next question is by Mr. Jean Luc Romain from CM-CIC Securities. Please go ahead, sir.

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

Good morning. I have one question on Brazil. I understand your point that Petrobras will continue using flexibles for [rigid] and injection lines. I was wondering if you believe Petrobras will still use both riser technologies, still [catenary] risers, and upward risers which we use for the first module on Lula and the South of Lula.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Well, I think Petrobras will use what they think is the best solution in a given field. And I always say that and I will continue to say the same thing is that the best technical solution is not based on a religion vis--vis FCRs or flexible or hybrid. It's about what is the best design for a given set of conditions. So we're going to see -- continue to see a very high interest in Brazil for both flexible and rigid.

Now the thing I'd like to say also is that, on the integrity of the system itself, the production system itself, we're going to see more and more focus to be able to monitor not only the flow but also what is happening with the riser itself, hence the importance of being able to continuously monitor the risers. And this is an area where we are focusing a lot of R&D at the moment and which is going to most probably be part of the future prospects, or at least future tenders coming from the products.

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

Thank you.

Julian Waldron - *Technip SA - CFO*

We're going to take two more questions.

Operator

Thank you. Our next question is by Ms. Amy Wong from UBS. Please go ahead.

Amy Wong - *UBS - Analyst*

Hi. A lot of my questions were answered already, but I just have one and I jumped on the call a little bit late so apologies if you've already covered this. On the income taxes, you have an effective rate of 28% for the quarter. I noticed it does -- is a bit lower

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than the effective tax rate we saw for 2010. So can you comment a bit what was driving the lower tax rate in this quarter and whether or not that is sustainable for the full year? Thanks.

Julian Waldron - *Technip SA - CFO*

Amy, good morning. Thank you for the question. I think my first priority over the last couple of years has been to stabilize the tax rate. And we've indicated that we thought we could stabilize it around 30% and I think that for the last couple of years, we've done well. I'd still maintain for modeling purposes, if you will, 30% for this year. And I think now having stabilized our focus can now go to look at whether or not we can improve that.

In the quarter, it's a relatively small absolute amount. But we probably had profit rising in -- let's say a better offset of losses and profits around the Group between entities in the quarter. Nothing spectacular, but that's the main driver and we'll see if we can continue.

Thierry Pilenko - *Technip SA - Chairman and CEO*

It's a good question Amy. We are going in the right direction and we -- you have to help me continue to put pressure.

Amy Wong - *UBS - Analyst*

Will do, Thierry. Thanks for the answer Julian.

Julian Waldron - *Technip SA - CFO*

Thanks for your question Amy.

Operator

Thank you. Our final question will be by Mr. Guillaume Delaby from Societe Generale. Please go ahead, sir.

Guillaume Delaby - *Societe Generale - Analyst*

Yes, good morning Thierry. Good morning Julian. I think my question is quite traditional now. I would like to have an update about your view on potential cost increases, essentially raw materials and staff costs. Did you notice any changes in the last couple of months? And don't you feel that by 2012 the fact that the increases in cost are maybe quicker than your ability to increase prices on your new projects? Thank you.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Okay. It's a traditional question. Have we seen increase in cost of raw materials? Yes. Have these costs in raw materials trickled down to equipment? The answer is not so much at this stage. The competitive environment is still pretty open. And I think a couple of months ago, they are from large equipment manufacturers or steel tube manufacturers who were commented pretty clearly about what's happening. The price of steel has gone up. And the price of steel tube has not gone up in -- with the same order of magnitude.

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At this stage it is still, we believe, a buyers' market and we have been able to secure good prices. I think by the end of this year, we will probably have to make sure that we secure some prices prior to bidding, but it's not yet the case. But that could change by the end of this year, beginning of next year.

Now can we expect cost of raw material inflation greater than what we can pass onto the customer in 2012? Way too early to say. Way too early to say.

Julian Waldron - *Technip SA - CFO*

And I think, Guillaume, two other comments from me. One is the cost of construction and particularly construction, labor and equipment, we continue to see that as stable and in some cases possibly even deflationary rather than the opposite.

And secondly, in terms of personnel, the areas where personnel costs have always been the most prone to inflation, we see those still being the case, whether that's Brazil or Australia, for example. The areas where salary inflation has been lowest, again, we see no particular pressure at this stage.

So I think three, two, about six weeks ago in full year, we were right to call this out as a risk. At this point, it remains more a risk ahead of us than something that we're seeing materialize I would say.

Guillaume Delaby - *Societe Generale - Analyst*

Okay. Very clear. Thank you very much.

Julian Waldron - *Technip SA - CFO*

Thank you.

Thierry Pilenko - *Technip SA - Chairman and CEO*

Okay. I guess this was the last question. So thank you very much. And have a good day.

Kimberly Stewart - *Technip SA - VP, IR*

Ladies and gentlemen, this concludes today's conference call. And we would like to thank all of you for your participation. As a reminder, a replay of this call will be available on our Website in about two hours. You are invited to contact the Technip Investor Relations team should you have any questions or require additional information. Once again, thank you for your participation and enjoy the rest of your day.

Operator

Thank you for your participation in today's results conference call. We would like to advise that a replay of this call will be available within the next two hours. The replay will be on our website, www.technip.com, in the Investor Relations section or by dialing plus 33 172 0015 00 or plus 44 203 367 9460 or plus 1 877 642 3018, using the confirmation code 272865, hash. The replay will be available for two weeks. Thank you and goodbye. You may now disconnect.

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