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PRESENTATION

Operator

Good morning, everyone, and welcome to Technip's first-quarter 2015 results conference call. As a reminder, this conference call is being recorded. (Operator Instructions).

I would now like to turn the call over to your host for today's conference call, Mr. Thierry Pilenko, Technip's Chairman and CEO. Please go ahead, sir.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Good morning, ladies and gentlemen. Thank you for participating in Technip's conference call. I'm Thierry Pilenko and with me are Julian Waldron, our CFO; Virginie Duperat, our SVP and Group Controller; as well as Kimberly Stewart, Aurelia Baudey-Vignaud and Michele Schante of the Investors Relation Team.

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

Kimberly Stewart - *Technip SA - Head of IR*

Thank you, Thierry. I would like to remind participants that statements made during the call, which are not historical facts, are forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995.

Readers and listeners are strongly encouraged to refer to the disclaimers which are an integral part of today's slide presentation, which you may find on our website, along with the press release an audio replay and a transcript of today's call at technip.com.

Please note that we will refer to adjusted numbers which were prepared as described in Technip's fourth-quarter and full-year results press release throughout this conference call.

To ensure consistency and comparability we will continue to report and provide forward-looking information on an adjusted basis as is used by Technip for management purposes.

I now turn you over to Thierry, who will go over the first quarter 2015 highlights; Thierry?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Kimberly.

So Technip's first-quarter 2015 was solid, despite the industry headwinds. The Group revenue grew 17%. Our operating income from recurring activities, or OIFRA, grew 43%; and net income grew 28% year on year.

As in the previous three quarters performance was contrasted between our two segments. In subsea, revenue growth was 28% and there was a substantial improvement in both margin and absolute profit compared to last year. Order intake was robust at EUR1 billion, including a very resilient demand for the Brazil pre-sold developments with, for Technip, a significant high-tech flexible award.

Onshore/offshore continued to experience a difficult operating environment, and I must say that I'm not satisfied with this performance. Although revenue grew thanks to the new projects, such as the Yamal which was won last year, the operating profit or OIFRA fell to EUR24 million.

Order intake was solid in terms of services contract with early-stage work and PMC contracts, but much slower in EPC awards, resulting in a low order intake value this quarter.

At the end of the quarter Technip's backlog is over EUR20 billion and we have a strong balance sheet, with adjusted net cash up EUR600 million reaching EUR1.7 billion.

We continue to reduce our costs and increase our efficiency. This translated this quarter into SG&A costs down EUR11 million year on year.

I now turn you over to Julian, who will go over the first quarter results in more detail.

Julian Waldron - *Technip SA - CFO*

Thank you, Thierry. So on slide 5, I'll start with subsea.

The quarter was a little better than we had expected. Vessel utilization was a solid 68%. As is usual in a first quarter, we have relatively little work at the beginning of the year in the North Sea, but this year also in Asia Pacific where we had no significant offshore campaigns scheduled. The Deep Orient was in West Africa and the G1201 went into and came out of a scheduled class dry dock.

By contrast, we had full utilization of our vessels for example in Brazil, including our two new 550 ton pipe lay support vessels, one of which came on stream four months earlier than planned, and has been well used by the clients.

In the Gulf of Mexico we were working well, for example, on Julia with the Deep Blue, and the Deep Blue is now transited to Europe. The G1201 is now back in Asia and, as I said, her upgrade has been satisfactorily done in Singapore. The 1200 has actually now just ended a first-class certification dry dock.

In Africa we were busy off shore with both GirRi 2 and Block 15/06. The ramp up for the major campaigns in the second half of the year in West Africa have also been proceeding satisfactorily.

I would note that our manufacturing plants were all busy. That includes Acu, where productivity and progress has continued during the quarter.

As you can see in the first quarter, the segment grew both its margins and its absolute profit. This good momentum has set us up well for the rest of the year.

So to conclude, we have in subsea a segment that is currently outperforming our early expectations.

Now, by contrast, moving to the next slide. As Thierry said, we are less satisfied with onshore/offshore. I will start with a couple of things which are working well.

So Yamal, in particular, is progressing very much according to expectations. Progress payments from our client are in line; and the module fabrication campaign in Asia, and engineering overall, are progressing well. Yamal's revenue is starting to be material to the segment.

Against this, as Thierry said, the operating environment is tough. Some elements of the supply chain are under pressure; and some clients continue to be slow and, I would say, even adversarial, in managing changes and variations on projects.

Whilst this is not new, we were commenting back in July last year about these trends, and we had indicated that we expected a slow start to the year in mid-February, but the attitudes have probably worsened since the start of the year.

The consequence is that we are, for example, across some projects committing extra costs, for example to manage additional engineering or project-management, without at this point the expectation of getting additional payments or reimbursements to cover them.

So what's our response? Here's some elements in terms of how we are reacting.

Firstly, we're intensely focused on cutting our costs. I'll come back to that in a later slide.

Secondly, through the next few quarters the focus that we've put on growing our services contracts and our project-management consultancy, for example, and our reimbursable work, should start to contribute an increasing share of our bottom line. As we have said consistently over time, Yamal will add to our profits.

And last, of course, we're intensified -- intensifying the work with our customers, to move matters on faster. We will, during the year, continue to finalize and physically deliver projects to customers, not all of which, as you can imagine, are contributing profit today.

So having covered the two segments on slide 7, I'll turn to the Group, make a few comments here.

Revenue was up 17%. Operating profit up 43% year on year; and as we've noted, a contrasting between the two segments, with subsea being particularly strong.

Foreign exchange, notably the dollar, boosted revenue. The total impact was EUR204 million, split evenly between the two segments. But, at this time of the year, the mix between the different geographic regions meant there was actually a minimal impact on OIFRA.

As you can see from the P&L, we maintain momentum in cost reduction. SG&A expenses were down EUR11 million year on year, and EUR14 million compared to last quarter.

Although I would expect currency effects to have some influence on the headline numbers, I'm confident that we're finding additional ways to reduce our SG&A; and, that we're also starting to see momentum and response in cutting costs above gross margin as well. And this has been, as you know, one of our key focus areas this year.

Corporate costs came in at EUR17 million, which is quite clearly below last year's run rate.

Below OIFRA there are EUR22 million of non-recurring items; EUR6 million of restructuring and a further depreciation of our MHB stake.

The projected tax -- the effective tax rate was 30%, and I've got nothing particular to note on that.

Now, turning to cash flow on slide 8. Working capital was better than we had expected at the beginning of the year, and was positive at EUR318 million. This reflects good milestone payments and down-payments across a range of projects, both onshore/offshore and subsea.

Now, we said in February that we thought working capital requirements would rise modestly this year. Although it's not been the case so far, I see no reason to change that initial expectation. I do expect us to need working capital between now and yearend. Nothing new in that it's perfectly in line with the way we would expect our cash [on] our projects to move.

We'll pay our dividend in quarter 2, so our cash, I suspect, because of that, will go down this coming quarter.

Last, net CapEx was EUR58 million in the quarter, and that's fully consistent with our full-year objective to reduce CapEx to EUR300 million.

There were no divestments in quarter 1, but we have found additional divestment opportunities on which we're actively working, and I would expect to close a couple of these in quarter 2 and quarter 3.

So before handing back to Thierry, I'll cover the objectives on slide 9.

As you read this morning, we've confirmed our expectations for the Group over all remain unchanged. But, recognizing that at this point subsea is outperforming, and onshore/offshore is underperforming, we raise our expectation for adjusted operating profit for subsea to top of the announced range, so at around EUR840 million. And we lower onshore/offshore to around the bottom of the announced range, to around EUR250 million.

I would note that ForEx is currently pushing revenue higher. It's had a positive impact on Q1, and a positive impact on backlog. The good progress on subsea projects so far this year, is probably pulling some revenue into this year as well.

The consequences -- so -- I would note two further things. Firstly, in onshore/offshore should ramp up over the remainder of this year. At this point I think caution is the right word, and we do see the second-quarter margin still quite low. I would note by contrast that subsea will have normal seasonality this year.

With that I'll turn you back to Thierry, to talk through the current market environment.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Julian. We are now going to talk about the market environment. For those of you, who are looking at slides, you can go to slide 11.

I would say, compared to two months ago, our publication of our full-year results in mid-February, there are only some slight changes in our views.

First, projects for which finally there's some decisions have been made, continue to progress. There's been no change here in the current projects that have been FID'd. However, negotiations, as we said, are increasingly difficult on contract changes and variation orders, particularly for onshore/offshore projects.

We have started to see deflation movements in the supply chain, in particular for procurement for new projects. I believe that this lower input cost should benefit new projects, so we should -- that should help getting some traction on new projects.

We continue, unfortunately, to see new projects being delayed, as clients are reassessing their investment priorities. This is true both for internationalized companies, as well as nationalized companies.

However, as we said in February, we start to see some evidence that some strategic projects could be prioritized. That includes the projects in subsea and also projects in downstream petrochemical, for example.

A word on Brazil. The demand for the Brazil pre-salt developments continues to be very strong, as illustrated by the high-tech flexible pipe award that we had this quarter. I will go over this in more detail in a few minutes.

But I can already tell you that we had a very positive reaction from our clients on the FMC Technologies and Technip have created an alliance and created Forsys. So we are discussing projects which were previously thought to be uneconomic and likely candidates for studies using Forsys Subsea abilities.

We expect the first Forsys Subsea commercial studies will occur in 2015 and that the resulting EPIC award could happen as early as next year.

Moving to slide 12, we had EUR1.5 billion of new orders in the quarter. The EUR1 billion in subsea mainly composed of flexible supply orders, was very positive news, and compared with an average of about EUR1.3 billion per quarter for the last three years.

So onshore/offshore, as we said before, is at around EUR500 million, and is more in line with the current market that we see.

Backlog is nearly stable at EUR20.6 billion. And, of course, positive contribution from currency variation was there on the backlog for about EUR1 billion contribution ForEx.

The coverage of 2015 has improved and with an estimated EUR8.2 billion of business to execute for the rest of the year, our revenue objectives are fully supported.

2016 has also improved and we have, for example, over EUR3.5 billion of subsea work booked for 2016. I remind you that this does not include the PLSV long-term charters that are in joint venture, nor reimbursable and service work, for example, in the onshore/offshore business for PMC work.

Moving to slide 13. This slide was first presented in our full-year results and we thought it necessary to come back to it. We have had a strategy to enlarge our portfolio of solutions for some time. We must and will continue to diversify our revenue streams, demonstrating that we are able to work in different ways with our clients.

So, today, close to one-third of our activity comes from these new services in which we have been investing heavily. Going from manufacturing and equipment to reimbursable project management and, for example, in March we took a step forward with the alliance with FMC Technologies.

I'd like to come back to this on slide 14, where we show the scope of our exclusive alliance with FMC Technologies and the purpose of the Forsys Subsea joint venture that we are creating within the context of this alliance. I just want to highlight a few points.

First, this alliance is between the two undisputed leaders in the subsea business. The products that we manufacture and the skill sets that we offer are completely and absolutely complementary; we have no overlap.

Second, we are both convinced that being involved together in the design phase of the projects can bring significant savings to our clients today.

And third, not only do we have the capacity to execute from design to installation, but FMC Technologies and Technip have the size and the capabilities to invest together in additional research and development to develop new products that can further increase efficiency, all the way from the well head to the platform, completely seamlessly.

So customers' initial reactions to the alliance are, as John Gremp told the market yesterday, absolutely extraordinary.

This alliance is a major step to broaden our portfolio solutions with adjacent and complementary products, as I say. Many of the technologies are proprietary to FMC Technologies or to Technip. This is why Forsys is offering what we call vendor-based solutions.

But, of course, and you can see that on slide 15, in parallel Technip and its affiliate Genesis will continue to design generic or agnostic solution, as we say, for clients who prefer this kind of approach. Giving choices to our customers should increase our differentiation, but also should increase our accessible markets.

Moving to slide 16. We have an example of the payoff of our recent investment in manufacturing in the latest award of the Lula Alto flexible supply contract in Brazil; 200 kilometers of pipes for the development of the ultra-deepwater pre-salt field.

These are unique exclusive products that are qualified for ultra-deepwater, which are the result of our steady focus and increasing investment in R&D, coupled with the right manufacturing capabilities in our Acu plant. And the right PLSV vessels to install these pipes.

With around 17 FPSOs to be installed by 2019, more supply contracts of this type should come.

Now moving to slide 17 and to our onshore/offshore business. We are also steadily growing a backlog of new revenue streams based on our investment, such as the recently-signed Basra project management consulting contract; early-stage projects, like the FLNG for Browse in Australia, or the Coral FLNG for Mozambique; or downstream proprietary technologies, like what we did this quarter for the STAR hydrogen plant in Turkey, or ethylbenzene plant in China.

So a good momentum as well in these new streams of business for onshore/offshore.

So as a conclusion, the environment is undoubtedly challenging. But I believe we are uniquely positioned with the strengths of Technip.

First, we have a near record backlog of projects, which we will renew very selectively.

We have a very-diversified revenue stream, early-stage work, PMC contracts. We have the ability to continue to invest in key talents and key technologies; and the strong balance sheet to support our strategy.

Now, our priorities in terms of operations are very clear and they haven't changed. First, we need to make sure we maintain the good momentum that we have in our subsea projects.

Second we need a very strong focus, particularly on client negotiations, in onshore/offshore. We need to continue our cost and improve efficiencies.

And last but not least, for the future we need to ensure that, right now, we engage early with clients to optimize their projects through early-stage involvement, developing Technip's knowhow and technology.

With that, we'll turn over for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Guillaume Delaby, Societe Generale.

Guillaume Delaby - *Societe Generale - Analyst*

I would like to come back to your view on subsea. I'm not talking about your backlog; I'm talking about 2015/2016, about the market.

Two days ago at the FMC Technologies conference, FMC has been relatively optimistic, to say the least, regarding its order intake by the end of 2015, with further acceleration in 2016.

If I try to compare that with your slide 11, where you show some, let's say, confidence as well, I would like to ask if, according to you, something has changed. Are there some regions which are changing? Is it only the fact that the supply chain costs are going down? If you could even more elaborate than what you did previously.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Well, Guillaume, thank you very much for this question. I don't think something has changed very significantly compared to two months ago.

However, it is clear that our clients, particularly the IOCs have a pretty large portfolio of opportunities in our shallow and deepwater. And that, obviously, the first reaction when there's a change in the market is to try to see which cost you can cut immediately. But it's also to try to anticipate what should be the cost environment and the solutions that you design to exploit those deepwater resources.

I think what we have seen over the past few months, is the first thing was very short-term reaction: what can be done to optimize cost of drilling; change some conditions; get advantage sometimes of the overcapacity on the drilling side.

But in parallel to that, we see that some customers, particularly the IOCs are looking at what are the ways we could reduce the overall cost of these developments, by standardizing, by reducing the requirements, reducing the specifications and by going to more fit-for-purpose solutions. I think some of the optimism that you may have heard is coming from the fact that we have seen some traction with standardization in particular.

Now, is there a region in particular? I wouldn't say so. I would simply add that clients have started to really be very active on the elements of cost reductions that I was talking about: standardization; simplification; fit-for-purpose solutions. That's why we have seen this absolutely formidable reception of our initiative with FMC Technologies.

So you could see that, for example, in Brazil I believe the plan to develop Libra is still going full speed. It's still at a very conceptual stage, but it is massive reserves.

You can see that clients who have some strategic upstream projects are moving forward. I think this is quite important to realize that after a period of maybe reassessing the portfolio, our clients are saying some key strategic projects need to move forward; for example, BP deciding an investment in gas in Egypt.

We could be seeing in places like Mozambique, and if we hear our clients -- if we listen to our clients, in Mozambique, we could see a decision to move forward for, again, gas developments in the next 12 to 18 months.

So I would not say there has been a major change in the environment, but we start to see the reaction of our clients. And, I would say it is going in the right direction, in the sense that they want to make these resources exploitable.

Guillaume Delaby - *Societe Generale - Analyst*

Thank you very much, very useful.

Operator

Mick Pickup, Barclays.

Mick Pickup - *Barclays - Analyst*

It's Mick here, sorry to focus on the negatives. I just want to talk about the onshore/offshore and obviously that margin in there, which is disappointing. So a couple of questions and they're probably actually tied into each other.

So can I just check that you are booking all the associated costs on VOs now? There's not a working cap element somewhere else for payments you expect to get later in the year.

And, as I say, it's probably the same question. If you expect this year to do somewhere towards bottom of the range, it says you're doing 4%. Now, obviously, 1.5% in Q1, a weak Q2 says you're going to have an exit rate of 6% -- 6.6%/6.7%, that type of number. I'm just wondering what it is that makes that step up. Is it just the VOs or is there any recognition coming through at that point in time?

Julian Waldron - *Technip SA - CFO*

So, Mick, thanks for the question. I think they're important and necessary questions, so thank you for asking them.

On the first point, we've booked the costs that we think -- first of all, that we have and that we think we will incur to cope with the issues that we have.

None of us will ever sit here and say that it's going to exactly pan out like that when we get to the end of the project. But I can confirm where we have and where we can estimate and where we have estimated, those costs are fully in the books.

Secondly, in terms of looking at the rest of the year or the next several quarters, I would go back to the points that we made earlier in the presentation. I think there are three or four areas which are critical for us to intensify.

First, cutting our costs and, across the Group, but including in onshore/offshore, being proactive and maintain momentum, both above gross margin and below gross margin is important to us.

Secondly, we've put on a significant portfolio of services work; reimbursable work; project management consultancy; large projects, like Sasol, for example, in the United States, and the weight of that in our onshore/offshore segment is growing.

Thirdly, without setting for you exactly a timeframe, the amount of profit in the Group that we will take from Yamal will increase.

And lastly, and you made it as your last point and I will come to it last, the management action from Thierry and the [ComEx] downwards to help our clients reach decisions on execution plans to move projects forward, and thereafter to come to an agreement on how those costs should be shared. That momentum or that effort will increase and will be sustained across the segment.

So I think those are the elements that we have in mind for both the coming quarter, but also the next several quarters.

Mick Pickup - *Barclays - Analyst*

Okay, it's just that -- yes, so the follow-on from that is, so it seems that the back half of this year's exit rate is feels like a rate that doesn't have anything special in it. Yet, I look at consensus and consensus is still running 4 and a bit% into next year. Does that make much sense to you at the moment?

Julian Waldron - *Technip SA - CFO*

We're not commenting on 2016 at this point. But I think I would probably suggest that we looked back at what onshore/offshore, in terms of absolute amounts of money, has produced in what I would call more normal quarters over the last two to three years.

I don't have the numbers to hand, but my guess is that it's somewhere between EUR70 million/EUR80 million, maybe on average a little higher than that. But it's somewhere in those ranges in terms of absolute profit over the last two/three years.

So I don't think we consider this quarter to be either satisfactory or reflecting the underlying strength of the overall portfolio of business that we have and the results of the actions that we can take on the segment over the next few quarters.

Mick Pickup - *Barclays - Analyst*

Yes, thank you, Julian, very clear.

Julian Waldron - *Technip SA - CFO*

Thanks, Mick.

Operator

Phillip Lindsay, HSBC.

Phillip Lindsay - *HSBC Global Research - Analyst*

Okay, two questions; the first one is slightly related to the previous question.

So given how low the margin currently is within the onshore/offshore, have you actually gone back and re-evaluated the bid process for these projects? So could the current situation imply that these projects were maybe not bid appropriately at the start? Perhaps you could make a comment to that.

And then second one, unrelated, just keen to explore strategically where you're thinking of taking the business in the coming years. Obviously, we're all aware of the subsea capability that you're keen to add. You've got the tie up with FMC.

It doesn't sound like you want to make the business more capital intensive than it currently is. But you have hinted that you're keen to do something and maybe capitalize on some of the opportunities that the downturn might present, and you've clearly got a balance sheet to do that.

So should we think along the lines of extensions to current business lines or perhaps a move into a different direction?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Starting with the bid process on onshore/offshore, I don't think we have changed or seen any massive change in the way we were bidding over the past few years.

We always said that we want to have a diversified portfolio of projects in terms of size, in terms of clients, in terms of nature and between onshore and offshore. So I would certainly not say that those projects were not bid appropriately.

But, of course, we are today in a different environment and I would say there is something which is probably different between onshore/offshore and subsea, which is in onshore/offshore projects, particularly some offshore projects, we did start from FEEDs that were sometimes incomplete, or FEEDs that we have not done ourselves and where there was an understanding with the client that we would actually complete the incomplete part of the FEEDs as we move along with the project.

This is not unusual, actually, to have an approach like that, particularly with onshore/offshore, where you can add resources or change the design as you go along.

Now, as you do that, of course, you expect that there will be variation orders to compensate for these elements. Those variation orders are the ones that are today more difficult to negotiate.

We started to highlight that in the middle of last year and it's obviously more acute today in $50 to $60 oil environment; whereas for subsea, because of the involvement of sometimes very large fleets during the installation time, everything needs to be extremely well defined from the beginning, because you don't have a lot of flexibility to change things as the project goes along.

Now, moving forward, as we said, we are going to continue to be selective. But more importantly is what has happened over the last couple of years, two/three years, is that, first, we have moved much more into services, project management consulting, EP and construction management projects, where there is no construction or fabrication risk. Of course, the development of our technologies with the acquisition of Stone & Webster that we did 2.5 years ago and which has been a great success.

That is a transition, actually, to your next question, which is obviously we have invested quite a lot in hardware and expanding plants, modernizing and expanding our fleet and so forth, over the past four to five years.

But -- and we believe that we have the industrial tool that we need today.

In fact, of course, we're going to continue to deliver the vessels that we have committed to deliver, but we are not planning for major additional capital expenditures over the next few years. In fact if you look at what we did with the alliance with Heerema, this was a way to get access to very capable vessels, without having to go through the capital expenditure.

Now, when you look at what we are doing with the new businesses that we have developed, whether it is PMC, technologies in onshore, whether it is the alliance with FMC Technologies, it is a way to actually broaden the market; get broader solutions; create new revenue stream, without having to invest massively into new hardware.

I think this is a strategy that we started to apply many years ago, and I think this is a strategy that helps us be more resilient in the more-difficult period, like we have today; and the strategy that will help us to grow faster when you have growth periods.

Phillip Lindsay - *HSBC Global Research - Analyst*

All right, thank you.

Operator

Asad Farid, Berenberg.

Asad Farid - *Berenberg - Analyst*

Most of my questions have been answered, but I just want to ask three very quick questions.

First, as you highlighted, that because of the change in the market conditions, especially on with regard to variation work, you are taking more EPC work versus EPC work on the onshore side. How do you expect that will impact your long-term margins, for the onshore/offshore business, over the next three years?

Secondly, Petrobras, they reported their full-year results yesterday, they are talking about cutting their 2016 CapEx by 37%, versus the previous plan. Even in absolute terms they are talking about cutting their 2016 CapEx versus 2015 levels.

Can you explain why, despite these cuts, you remain so confident on achieving good utilization and returns on the capacity, which you have added in that region?

And lastly, four of your PLSVs in Brazil will be up for renewal over the next 14 months. Are you confident that these contracts can be renewed, and can be renewed at the same terms, which you had in the previous contract? Thank you very much.

Julian Waldron - *Technip SA - CFO*

Thank you very much. On the first question, I think in terms of EPC work, we are still, across offshore/onshore, very keen and interested in taking EPC work, and we will continue to do so.

What you've seen us do progressively over the last few years, is to endeavor to take most of our EPC work on the back of early-stage involvement.

And whether you look -- if you look at our largest onshore/offshore projects; if you look Yamal; if you look at Prelude; if you look at Jubail; if you look at Braskem; those projects are advancing in a satisfactory manner.

In the case of Jubail, that project was taken on the back of a FEED in 2009, delivered to the client last year, with really nothing happening in between other than a good safety record; a good schedule record; a good cost; and a good quality record.

When we take EPC projects, having done the FEED, the client gets an excellent result, and we get the results that we seek as well.

So I think our strategy in EPC will continue to be -- to increase the amount of front-end work we do, increase the amount of early involvement.

To the extent that the weight of other types of activities, whether it's process technology, as a result of the acquisition of Stone & Webster; whether it's pure services work; whether it's reimbursable work, some of that comes with higher margins than traditionally, in the industry's EPC business.

I think from our point of view, it also comes with a different risk profile, and I think that mix of margins and risk profile is positive. But if we can continue to work at the early stage, on projects, then taking risk continues to be something we're very interested and keen to do, and on which we make money.

Thierry?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Right now let me take the question on PLSVs in Brazil. You're right, four PLSVs will come up for renewal over the next 18 months, so for Technip.

Now in these four PLSVs, I'd like to describe a little bit what we have there. We have to two PLSVs, which are actually at the end of their lives. Our client may decide to keep them for a few more months, depending on their operational priorities.

But the plan was, for us, always to replace those two PLSVs. It was the Sunrise and the Deep Constructor, which should get out, not only of our fleet, but of the market.

And this is why we had this plan to renew our PLSVs in Brazil. Then you have two PLSVs that were built in Brazil, and which have been operating for two years -- for more than two years sorry, four years sorry, and which are coming for renewal.

Those PLSVs are Brazilian flag PLSVs. They have been incredibly efficient, and the clients like them. So there will be a negotiation of course, around the renewal, like they do all the time, when the time comes. But I do believe that we will be able to get these PLSVs another long term contract.

We should also remember what happened at the end of last year with the new PLSVs coming into the market. As Julian was saying before, Petrobras actually asked us to accelerate one of the two new PLSVs that we delivered to them, because there was a growing need for installing flexible pipes, and which is completely confirmed by, and supported, by the fact that they have placed very significant additional orders for flexible pipes. So I don't foresee any issue on the renewal of the PLSV.

Julian Waldron - *Technip SA - CFO*

Client spending?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Sorry?

Julian Waldron - *Technip SA - CFO*

Client spending?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Oh, I didn't get this one.

Julian Waldron - *Technip SA - CFO*

Your second question I think was on client spending; I don't think there's much more for us to comment on that. We expect the slowdown in activity to be prolonged and harsh; we've said that consistently over the last few months. We remain cautious, and I don't think our view has changed.

I think there are a few areas where, nonetheless, we do see movements; one of those is that where our clients can, they are focused very much on sustaining the production that they had planned, and production growth that they had planned. So when you look at the Petrobras spending priorities, for example, that's definitely towards the pre-salt, which is an area of interest for us.

As Thierry mentioned earlier, we're seeing the early signs of prioritization between what's strategic, what's financially giving a short-term return, and those things are perhaps marginally more evident than they were three months' ago.

But I don't think we see anything in our customers' recent announcements that changes our overall view of what the next couple of years is going to look like.

Asad Farid - *Berenberg - Analyst*

Great, thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

If I may add a couple of things to that; when our clients talk about spending, they talk about the global spending in general, not necessarily making a difference between the ongoing CapEx versus new CapEx.

And so it is hard to say what is coming from the ongoing activities, particularly when you see the reduction in costs in drilling seismic and other well services versus the rest.

Now, what's important for Technip is that we focus on the right projects moving forward. So, the overall spending is a nice number to have, but I think, for me, what's more important is to make sure we are engaged with the client on the projects that have the best chance to move forward. Generally, that requires the right technology and the right early-stage engagement. If you have that, you can much better gage whether a project will move forward or not, whether it is upstream or downstream.

Asad Farid - *Berenberg - Analyst*

Thank you. Thank you so much.

Operator

Christyan Malek, Nomura.

Christyan Malek - *Nomura - Analyst*

Just two questions if I may. Firstly, when IOCs are asking to revise costs down, does that discussion also imply a lower subsea margin for you, i.e., instead of an implied 15% you're currently making, could that move subsea lower over time to 10%, to 12%, say?

Secondly, with some of your competitors now realizing subsea margins in offshore EPC in the high single digits, do you think there'll be a price war in subsea's contracts don't materialize and, as you say, the market stays prolonged and harsh?

Thierry Pilenko - *Technip SA - Chairman & CEO*

Okay, well I think obviously when you're getting into a period which is more difficult, like it is today, we've seen that before, and I'll go back to what I said, which is we need to be selective.

In the previous period, if you remember the period 2009/2010, we have been able to be quite selective, even if there were fewer projects. In particular, we moved away from certain projects where there was very, very intense competition and where prices didn't seem to make sense.

So we will continue to be disciplined here, but it's not just at the bidding stage. Again, what we need to do is to be proactive at the early stage and not just look at reducing margins, but reducing overall cost of projects. This is why we do what we are doing with FMC Technologies in the subsea world.

Now, this being said, do we expect to see globally, for our industry, margin decline? Probably overall. Now, we are not going to get into the guidance for the next years or so for Technip. But, in terms of backlog coverage, I think we are in a pretty strong shape compared to other players in the market and that should help us be more selective and be more resilient.

Julian Waldron - *Technip SA - CFO*

And Christyan, I would just add one last thing, there is nothing in the subsea order intake in quarter one that would change anything that Thierry has just said.

Christyan Malek - *Nomura - Analyst*

Right. And just as a follow-up, if I may? On the onshore, so variation orders you talk about that are getting more difficult to negotiate, which is more a macro thing, arguably that tends to be leading indicator, a charge maybe incurred if discussions are not successful. So can we be clear that this is not the case, and there are no execution issues in the onshore portfolio?

Julian Waldron - *Technip SA - CFO*

I think, Christyan, I'll go back to the question that Mick asked earlier, because I think that's the right way to view it.

Have we taken in our P&L all of the costs that we concede are complete at this point? The answer is yes. Can we always, on every project, guarantee to you that that's the last word? Never; not this year, not last year, not next year, and not five years ago.

So I think both you and Mick have asked the right question, but I think the answer is the clear one that I've just given.

Christyan Malek - *Nomura - Analyst*

Okay, thank you very much.

Operator

Robert Pulleyn, Morgan Stanley.

Robert Pulleyn - *Morgan Stanley - Analyst*

Changing tack a bit, two relevantly different questions. The first one in terms of housekeeping, if you wouldn't mind. In terms of Yamal ramp-up, what is the revenue contribution we should be expecting for this year, just so we can get a grasp of how much that's contributing in that division?

And secondly, regarding your contract negotiations. Much of the focus is around price and cost, but could you maybe add a little bit of color to what extent your clients, particularly offshore, would like you to take further risk? I know you have got a very good backlog and you said you're going to be very selective, but I think that would be quite interesting in terms of how the market dynamics are working?

And then thirdly, if I can revert back to the variation orders. May I just ask: is this many projects and clients or really just one which is making this impact? Thank you very much.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Do you want to talk about Yamal, Julian?

THOMSON REUTERS

Julian Waldron - *Technip SA - CFO*

Yes, so on Yamal, I think, three or four months ago we were probably thinking that Yamal would be EUR700 million/EUR800 million of revenue this year. It'll be north of that. I would expect actually today, given a little bit of currency impact plus, actually, the good progress on the project that we'll be over EUR1 billion this year.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Now, going to your question about the risk offshore. When we talk about the offshore world let's talk about the platform world. There are not very many large platform being discussed at the moment. Many of them are in the relatively early stage, like [fruiting] LNG for example.

I would not say that we see something very different in terms of terms and conditions. I think for the execution of the offshore projects the key is going to be the workload and the capacity of, in particular, the Korean yards over the next two to three years; and how they're going to go from a very intense and, I would say, almost an overload situation with many projects in parallel, which they are currently delivering to a much slower environment.

I would expect that if we see a lower pace of awards in offshore for Korean yards that they will start to re-internalize their delivery; therefore have less subcontractors.

So I would say that in that case they would probably have a better control of their costs and a reduction of their costs and better control of their delivery, which is going to contribute to the overall decrease or deflation of cost of projects. But this transition in the -- particularly the main yards, is going to take probably 18 to 24 months.

Now about the deals, it's not to one project. There are a few projects on which we are discussing deals with clients and this is not different from what we have been doing for a very long time. It's just much more difficult, because our clients are much less flexible in terms of cash.

Julian Waldron - *Technip SA - CFO*

Rob, I think it's just going back to when we first started talking about this in July last year. I would say that the projects on which these discussions are taking place has not really changed over that time. It's pretty much the same projects, so not one; it's not everywhere either.

Robert Pulleyn - *Morgan Stanley - Analyst*

Okay, that's very helpful on those issues. Just maybe, sorry, one follow-up if I may over to Thierry, in talking about -- that was a very interesting comment about the Koreans.

But also regarding subsea, I know we had a question earlier in terms of the pricing war in subsea, but in terms of the risks that you would take in terms of installation there; whether it be around weather or whatever it might be. Are you seeing any pressure to take more risks in that market as well as -- on top of the answer you gave for the other markets? Thank you.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Well, as usual when you go from a period of high activity to lower activity the pendulum is swinging back. I haven't seen -- we don't enough data points at this stage. People think three months or four months of lower prices is a long time, but it's not that long.

So we don't have a lot of data points, but I would expect that clients, for example in the North Sea, would start to push for us taking weather risks or us taking contingencies for weather.

So after that that means you have to judge what contingencies you can take and then the commercial exercise starts. But yes, we will probably see the pendulum swinging back a little bit, particularly on the weather side.

Robert Pulleyn - *Morgan Stanley - Analyst*

Fair enough. Thank you very much.

Operator

Nicholas Green, Bernstein.

Nicholas Green - *Sanford C. Bernstein - Analyst*

Can we talk a bit about the flex pipe award in Brazil for a moment? On slide 16 you talked about the significant opportunity there, and there is a big opportunity.

Given that you are fairly near full capacity at the moment how should we be thinking about your ability to capitalize on that opportunity?

I suppose the same question in reverse is: are you concerned that that opportunity may go to other players, because you don't have capacity to service it? That's my first question, thanks.

Julian Waldron - *Technip SA - CFO*

Nick, thanks for that. Two comments I think to make. First, Acu is running at its full available capacity today. Its full available capacity today is not what it will be in 12 months' time and not what it will be in 24 months' time. This is a high-technology, high-specification plant; it takes time to ramp it up.

So our capacity will increase in Brazil over the next two years as Acu moves from startup phase into fully normal run phase, if you will. And that's a couple of years' worth of process.

The good news is, and it's one of the reasons why I think we're seeing momentum across our subsea business at the moment, is the last nine months in terms of ramp up have been according to what we expected and what we wanted.

In other words, the teething issues that we expected to see we have seen those and we're working through those. The ramp up in productivity that we expected to see we're seeing that as well, so far so good. But the capacity will be bigger in two years' time.

In addition, we have an ability in Brazil, and our client has worked with us in that way before to supply Brazil not only domestically but also from Le Trait in France. We've done that on a few awards over the last five years, and that plant is qualified and does that.

We are, as you know, putting EUR68 million, a modest amount of money to upgrade the capacity in Le Trait over the next two years. So there's modest CapEx and a lot of productivity improvement are going to come to increase our flex capacity worldwide.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Yes, and I think in terms of organization that's a detail, but it's quite important. We have created about a year and a half ago now the concept of one manufacturing for Technip, so that we have a much more seamless organization across our plants, which helps in case a company like Petrobras, for example, wants to get access to other plants of Technip.

We have a lot of synergies between the two plants in Brazil where, for example, we can start fabricating in one plant and finish in another plant depending on the work load. The same thing with Le Trait, and in the future with Asiaflex.

That's quite important that we keep this flexibility, because that helps us increase revenue and capacity without having to actually reinvest in new plants or new production lines.

Nicholas Green - *Sanford C. Bernstein - Analyst*

Yes okay, so just to confirm then, you are open for business for more project awards, more flex pipe awards in Brazil? You would have capacity to take on and win another couple of awards?

Thierry Pilenko - *Technip SA - Chairman & CEO*

We have. And as I said in the script earlier, we believe there will be more projects coming our way, because so far we are still the only ones to be fully qualified for the [port] flexible pipes.

Nicholas Green - *Sanford C. Bernstein - Analyst*

Okay, thank you very much. Then just my second question, just a quicker one. In your prepared comments you mentioned that the alliance with FMC had been discussed since over a year ago; it had been in progress over that year.

So just a question then, would that alliance still have gone ahead if your proposed deal with CGG had gone ahead? And should we be inferring that that was case, the strategic logic that underpinned that CGG deal that in some sense still remains unsatisfied, you still wish to plug that gap, it hasn't been plugged by the FMC collaboration? Thanks.

Thierry Pilenko - *Technip SA - Chairman & CEO*

It's a very good question and thank you for asking this question.

Well, first of all we have been working for about a year, so that means you can imagine that we have worked in parallel on these two initiatives. I will explain in a minute why I think some of these initiatives are actually complementary.

The thing we did with FMC Technology is: why did it take a year? It's because we wanted to make sure that before embarking into, for example, the joint venture or the alliance, we would have certainty about our capability, as combined companies, to significantly reduce the cost when we work together, by reducing the interfaces, by standardizing, by bringing the people who work on SPS and SURF, which are the two main components of subsea together, and we started to work on actual projects; and projects where both FMC and Technip were involved, but separately in the past.

We said: what could we do today to improve the design and improve the operability and improve the installation, improve the cost? And we found out that on these projects we could, with what is available today, reduce the overall cost by working together; reducing the interfaces; increasing the standardization, reduce the cost by about 30%.

Once we were convinced about that we said: then, how do we move forward? And we said: well, we're going to move forward by creating an exclusive alliance and then by having a joint venture, which is going to be working on these early-stage concepts and then, of course, the two companies will execute the projects when the clients are ready. So that was the principal.

Now, in parallel to that we felt, and we have been feeling now for quite a number of years, coming from the input we are getting from our clients, that it was becoming more and more important to be successful with a design -- a full design of an offshore development project, including the platform, the subsea systems and so forth. It was becoming more and more important to have subsurface competencies and skills.

When we looked at CGG we were not looking at becoming a seismic data acquisition company; that was never our intention. We were looking at acquiring the skills around data processing; data interpretation; and reservoir and well performance, so that we could have a complementary solution, which includes both the subsurface and, i.e., the reservoir itself, the well, and the subsea systems.

So our strategy hasn't changed. In fact, the fact that we built with the -- with FMC a very comprehensive way of developing subsea makes the competencies on subsurface even more attractive today.

But as far as CGG is concerned, we have turned the page. We have turned the page. We will be looking for opportunities to develop those subsurface skills through either organic growth; bolt-on acquisitions, smaller size acquisitions. But we still take this direction, but certainly not at the scale of what we discussed at the end of last year.

Is that clear?

Operator

Amy Wong, UBS.

Amy Wong - *UBS - Analyst*

Just one question from me. In terms of your tendering pipeline in your subsea EPC business, could you give us a sense of in terms of the projects that you're currently negotiating and working with clients? What is the timeframe for the offshore campaign, generally, for the bulk of those projects? Thanks.

Thierry Pilenko - *Technip SA - Chairman & CEO*

Thank you, Amy, for your question. I would say the projects that we are discussing now are for offshore campaigns, 2016/2017. Most of and some of them could be a little bit even beyond that, but as you can see most of the work for 2016 is not fully booked, give or take.

Okay, well, ladies and gentlemen, thank you very much for attending our call and have a good day.

Kimberly Stewart - *Technip SA - Head of IR*

Thank you, Thierry. 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 reply of the call will be available on our website in about two hours. You're invited to contact Michele, Aurelia or myself in the Investor Relations team.

Once again, thank you for your participating and enjoy the rest of your day.

Operator

Thank you for your participation in today's conference call. The replay will be available by dialing in, for France, 01 72 00 15 00; for UK 020 3367 9460; and for USA 18 77 642 030 18, using the confirmation code 293339 hash key. The replay will be available for 90 days.

Thank you and goodbye. You may now disconnect.