SUBSEA 7 S.A.

Quarter 2 2015 Results Transcript

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Speakers:

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Ricardo Rosa, Chief Financial Officer
John Evans, Chief Operating Officer
Isabel Green, Investor Relations Director

Isabel Green: Welcome everyone to our conference call and webcast covering our results for the second quarter 2015. Here with me on the call are Jean Cahuzac, our Chief Executive Officer; Ricardo Rosa, our Chief Financial Officer; and John Evans, our Chief Operating Officer.

The full press release of the results can be found on the Investor Relations section of our website along with the presentation slides that we'll be referring to on today's call.

Before we start, I would like to draw your attention to slide number two. This contains important information regarding forward-looking statements. A similar disclosure is also provided in the press release. I'll now hand over the call to Jean.

Jean Cahuzac: Thank you. Good afternoon everyone and welcome to our results conference call. I will start with the highlights of our second quarter performance and our view of the outlook before handing over to Ricardo who will cover our financial results and cost reduction program in more detail. I will conclude with an overview of our recently announced alliance. And as usual we will take your questions at the end of the call.

So let's look first at the second quarter highlights on slide four. The present market environment remains challenging and as a consequence activity levels are significantly lower than last year. In spite of this difficult business environment, our excellent project execution and strong focus on cost control discipline have driven good financial and operational results given the circumstances. Second quarter revenue was $1.4 billion, down 29% on the prior year, and adjusted EBITDA was $275 million giving a margin of 20%. This included a charge of $100 million relating entirely to the cost of resizing the workforce that we announced in May. Earnings per share of $0.27 were down, compared to $0.74 last year. Global vessel utilization of 82% was an improvement on last quarter in part due to the seasonally better weather. However, compared to the 91% utilization during the same period last year it was down, particularly in the North Sea. Our view on the outlook has not changed, from what we were saying three months ago. Although, we continue to see a good level of tendering activity, the timing of new awards to market remains highly uncertain as FIDs are delayed further by our clients. We did react early to this challenging situation, more than a year ago, as soon as we recognised the industry slowdown intensifying. The new organisation we implemented at the beginning of this year is delivering results as we are simplifying our processes and delivering fit for purpose solution at lower cost. Our capacity resizing program that we announced in May is well on track. We are also strengthening our short and long term competitive position with the formation alliances with a market leading partner. I will talk more about these alliances later on.

I turn now to slide five to look at our operational performance in more detail. Starting in the Northern Hemisphere and Life of Field Business Unit, several projects made significant progress in the quarter. Offshore UK the Montrose project made good progress with pipe lay completed successfully by *Seven Navica*, and pipeline trenching and back-filling undertaken by *Skandi Skensen*. Also in the UK the Catcher project progressed well, with pre-installation service completed and the first trip of pipe spooled on *Seven Navica* at the end of the quarter. Offshore Norway, the Aasta Hansteen project completed fabrication and started installation and the Martin Linge project completed the installation of flexible flowlines, fibre optic cables and power cables. In Southern Hemisphere and Global Projects Business Unit, we have also made significant progress on several projects offshore Africa. The OFON 2 project in Nigeria is now over 90% complete. The Erha North project, also in Nigeria, progressed with pipe lay and umbilical installation. The two Lianzi projects of Angola are now well advanced in their offshore phases and the TEN project in Ghana is due to commence offshore operations in the third quarter. Our fleet of seven PLSVs in Brazil achieved a high level of utilization again this quarter. Our long term contract with Petrobras provides steady activity for the group with good medium term visibility.

Moving onto slide six to look at our backlog. We ended the quarter with an order backlog of 7.2 billion with no material impact from foreign exchange movements this quarter. Awards to market remain subdued, but we continue to win a good share of the available work. Our second quarter order intake of 900 million reflects our drive to find better ways of working, simplify and standardise were possible and use our proprietary technology to engineer better solutions. Announced awards in the period comprised of Maria project offshore Norway and a two-year contract with Petrobras for the PLSV *Seven Seas*. Our pure play subsea strategy aligns us closely with our clients to drive down the cost of producing deepwater oil and the Maria award is a good example of our collaborative approach. By using manual options embedded within the contract we were able to offer Wintershall a highly cost effective solution with standardised content, which allows them flexibility to take alternative choices as the project progresses such as bespoke weld specifications. At this point I wish to take the opportunity to remind you that our high quality backlog only includes signed contracts and approved deals. We do not include Letters of Intent or contract expansion options.

Turning now to slide seven, I would like to offer some comments on the outlook. The tendering environment is competitive and the timing of new awards to market remains highly uncertain. All of our peers are fully focused on wining the available work and competition is more aggressive, in particular for smaller projects. In the Northern Hemisphere activity in the North Sea has been particularly affected by the lower oil price. Especially in the Norway sector, where short and medium term award sanctions continue to face delays. Life of Field activity is low, although the spot market is becoming more buoyant, as expected in the summer months. The outlook for the Gulf of Mexico is

better with near-term activities supported by independent clients taking advantage of lower rates. However, the majors are taking a longer term view in the region and are looking well beyond the immediate future.
In the Southern Hemisphere, we have several large projects that are nearing completion. The outlook for new awards is uncertain, but there are various large tenders actively progressing towards sanctioning an award. The demand for domestic gas is supporting projects such as West Nile Delta in Egypt where the award to market is anticipated this summer and in India, tenders have been submitted for Vashishita. Although large award to market expected in the medium term include Bonga South West and ETAN in Nigeria, as well as Golfinho and Coral FLNG in Mozambique. With that I will hand you over to Ricardo, who will talk you through the numbers in more detail.

Ricardo Rosa: Thank you Jean, and good afternoon everyone. Let's first look at the income statement highlights on slide nine. Second quarter revenue of $1.4 billion was down 29% from the prior year period. Both Business Units contributed to the decrease, which reflected lower offshore activity levels compared to 2014. Adjusted EBITDA was $275 million for the quarter including $100 million charge relating to the resizing of our workforce as part of the cost reduction program announced in May. Excluding the resizing charge the EBITDA margin was 28% reflecting good execution on several projects that are approaching completion. Net income was $88 million and the earnings per share were $0.27 for the quarter. This included a net foreign exchange loss of $36 million from functional currency movements reported within other gains and losses. In the results for the six months to June, the net foreign exchange loss was only $4 million as the second quarter loss was mostly offset by the net gain reported in the first quarter. The tax charge for the quarter was $49 million implying an effective tax rate of 36%. The increase in the rate was in part attributable to the lower effective tax rate benefit associated with the $100 million charge.

Slide 10 shows in more detail the charge relating to the cost reduction program. It related exclusively to the expected cost of resizing the workforce and does not include any charges or impairments relating to projects, vessels or other assets. The charge has been reflected solely in the corporate segment and allocated to operating and administrative expense lines as appropriate. It does not impact the results for the Northern or Southern hemispheres, which I will now discuss.

Slide 11, shows the results of each business unit for the second quarter and the first half of the year. In both hemispheres results are down significantly year-on-year reflecting the lower activity levels. Good execution and successful conclusions on projects nearing completion combined with strong cost discipline has resulted in robust net operating income margins despite the decline in offshore work compared to 2014. The Northern Hemisphere generated revenue of $642 million and net operating income of $105 million in the quarter. An improvement on the first quarter, seasonally better weather supported higher vessel utilisation. In the Southern Hemisphere second quarter revenue was $707 million and net operating income was $131 million. The half year net operating income was $249 million. This benefited from a $29 million reduction in the full life loss provision reported in the first quarter on the Guará-Lula project, which is now over 95% complete.

Slide 12 provides an overview of cash flow for the first half of 2015. Net debt of $151 million at the end of June represented an improvement of $137 million on the position at the end of the first quarter, but was higher than the $6 million at the start of the year. Net cash generated from operating activities of $219 million was impacted by a decrease in net operating liabilities of $195 million as several projects neared completion or were closed out. We have previously highlighted this expected increase in working capital linked to the downturn in activity. However, I would emphasise that the movements since the first quarter end has improved by $153 million, thanks mainly to reduced receivables outstanding. Net cash flow used in investing activities included $362 million of capital expenditure, most of which related to the construction of the remaining five vessels in our new build program. Net cash used in financing activities was $13 million, which included $7 million in share repurchases during the six month period. Our financial position remains secure. During the second quarter we repaid $80 million that we had previously drawn under our $500 million revolving credit facility and subsequent to the quarter end we secured an additional term loan facility adding up to $357 million to our liquidity position. We have a good track record of returning excess cash to shareholders and using our capital to reduce potential shareholder dilution. While we remain prudent in our management of liquidity in the current uncertain environment, our Board has extended for a further two years the $200 million share repurchase program initiated in July 2014. As a result, approximately $143 million remains available for future share repurchases.

As shown on slide 13, investment in our new build program was $262 million in the first half year. The total forecast spend this year is $610 million with $230 million forecast for 2016, as some of the payment milestones have been delayed compared to previous guidance.

Turning to slide 14, construction of the new build vessels is progressing well; Seven Rio will be the next one to join our fleet and is expected to start operations in the fourth quarter this year. Our new build program will be completed in 2016 with the delivery of the remaining four vessels. When the new vessels join our fleet they will add to our cost base reflecting incremental marine crew and other standard running costs. In addition, when the vessels are delivered we will start to incur depreciation. The impact of this will be included in the standard depreciation and amortisation guidance we provide to you each year.

On slide 15, we have provided you some guidance on the potential financial impact of our cost reduction program. We will reduce our workforce by 2500 people, a cut of around 20% from the 13,000 reported at end December, 2014. We are on track to achieving this resizing by early 2016 and the estimated annualised saving is approximately $400 million. There is a $100 million charge associated with the resizing included in the second quarter results and it is expected to be liquidated by the year end. We are forecasting a further charge of up to $40 million in the second half, some of which will impact cash flow this year. The impact of the resizing charge on our full year 2015 earnings will be broadly offset by the savings we expect to achieve this year from the reduction in our workforce. We plan to reduce the active fleet by 12 vessels. This is a slight increase from the reduction announced in May as we continue to review the vessel schedule to optimise utilisation of the remaining fleet. We will be returning four chartered vessels to their owners and we have identified eight owned vessels that can be long-term stacked or sold. We estimate annualised savings at approximately $150 million, excluding the crew reductions, which are already included in the projected workforce cost savings. The cost to stack vessels is relatively low and is included in our estimate. The cost of removing our equipment from chartered vessels was provided for at the time the vessel was contracted.

Slide 16 provides the detail underlying our active fleet management plan. By this year-end we will have 30 vessels remaining in the active fleet. With 8 owned vessels stacked or sold and two chartered vessels returned by the end of December. The addition of the four remaining new build vessels and the return of two more chartered vessels will take the active fleet to 32 by the end of 2016. We renew the chartered vessels *Skandi Acergy* in the quarter extending the contract for three years at the favourable rate. This vessel was due to be returned in the middle of next year. But instead we negotiated the early return of *Skandi Seven*, a more expensive vessel in its place. The market for asset sales is slow, so if necessary we will stack a vessel while exploring more permanent solutions. We are not under pressure to sell assets at a discount to their market value. Stacking vessels saves up to 80% of their cash running cost, whereas returning a chartered vessel or selling a known vessel eliminates all of its costs both cash and non-cash. We have assumed in our guidance that all of the owned vessels are stacked. There will be a small improvement in savings if any of the vessels are sold. When market activity improves we will be ready to increase our capacity by taking on new charters and reactivating certain stacked vessels. Reinstalling our stored tower and pipelay equipment on to the newly chartered vessels is a relatively quick process. The time and cost to reactivate the stacked vessel will vary case by case.

Slide 17 sets out our financial guidance for 2015. We continue to expect revenue to be significantly below the record level reported last year and we expect our EBITDA margin to decrease. This is unchanged from previous guidance. Administrative expense is still expected to be in the range of $280 million to $300 million but includes the additional $16 million resizing charge allocated to this cost line. Including the impact of the charge relating to the cost reduction program our effective tax rate range has been raised from the 28% to 31% previously guided and is now 31% to 33%. We forecast the total charge of up to $140 million relating to the reduction in our workforce including the $100 million reported this quarter. Finally, our capital expenditure guidance for the year is $810 million to $835 million and some milestone payments on the new build program have moved into 2016. Sustaining CapEx is now projected to be between $200 million and $225 million. It is too early to provide guidance from 2016. The environment remains challenging and the timing of awards is highly uncertain. I will now pass you back to Jean to talk about our strategy for driving the business forward.

Jean Cahuzac: Thank you, Ricardo. So let's turn now to slide 19. It's Subsea 7's vision to be acknowledged as a leading strategic partner in this seabed to surface offshore engineering energy industry. Our clients need from us a partner who can execute cost effective technical solution that we safely deliver complex projects at a lower cost. The slide shows some of the area focus that enables us to help our clients to reduce the cost of field development. Engaging early and innovating helps us to believe our fit for purpose solution at a significantly reduced cost. Our collaborative approach will benefit our clients and us both now and into the long term.

As shown in the slide 20, I would like to talk in more detail about the opportunities early engagement offers. In particular, I will focus on how we recently announced alliances with Granherne/ KBR and OneSubsea and how these alliances will enhance the scale and scope of our capabilities. These complementary alliances create a formal structure which allows Subsea 7 to work closely with industry leading partners to drive better and lower cost solutions for our clients. We believe this will not only strengthen our competitive position but also deliver sustained improvements in the economy of deepwater oil and lead to a recovery of industry activity over time.

Slide 21 illustrates the importance of engaging early to deliver optimum value. The alliance with Granherne and KBR enable us to offer the full range of early stage engineering services and we will do all of our future concept and FEED studies to these arrangements. Frequently we are faced with re-engineering a field late in the project phase which is costly and an inefficient process. By combining the best-in-class engineering capacity of Granherne and KBR with Subsea 7 technology, engineering and installation expertise we have created a market leading offering in early engagement.

Moving on to the alliance with OneSubsea on slide 22. This partnership will leverage our announced early engagement capability to design, develop and deliver integrated Subsea development solutions with expertise planning downhole SPS, SURF and Life of Field. OneSubsea and Subsea 7 are already working together on a number of project tenders and we see great potential for cost savings and better production both of which will improve project economics for our clients. By forming in this alliance we are committing to collaborate for the long term to develop integrated technology and to drive innovative new solutions. Client interest in an integrated approach is growing and the spirit of the agreement is that for integrated projects where we will work together on an exclusive basis. The alliance agreement allows both parties to work independently on a project-by-project basis when our client's preference is not for an integrated or single interface solution.

To conclude my remarks today, I turn to slide 23 with the reminder of how Subsea 7 is driving the business forward and performing well through the downturn. We are focused on finding cost effective solutions that enable our clients to progress with field development. We are already delivering significant savings now and with further collaboration we can do more. We recognised the downturn early, another consequence we have proactively reduced our cost base through good cost discipline and by the implementation of the structured cost reduction program. We are offering innovative and competitive solutions to win new awards. The market is challenging, but it's not just price driven. The quality of the solution, reputation for good execution and a high level of safety are all important as well. However, we will not compromise on the risk profile of a project to win a contract. Even in today's challenging business environment there is no project which is worth taking with the wrong contractual terms and conditions. We will also continue to innovate and invest in new technology. The market needs better solutions to lower the cost of deepwater production. The companies that are best at this will win market share and emerge from the downturn stronger. And finally, as we are showing with our results today, we will continue to focus on consistently executing projects well, keeping cost down for us and our clients. With that I would like to invite you to ask questions.

Operator
Thank you very much. Our first question comes from the line of James Evans of Exane BNP Paribas. Please go ahead. Your line is now open.

James Evans (Exane BNP Paribas): Yes, afternoon. Thanks for taking my question. Jean, I wonder if I could push you a little bit more on the integrated engineering projects that you are working on today. Could you quantify, how many opportunities you are seeing to take on this sort of work for the next six to twelve months? And secondly, maybe little more prosaically, I just wonder if you could comment on the guidance, if you were to exclude the restructuring cost would you still expect margins to be down year-on-year?

Jean Cahuzac: James, thank you for your question. Regarding you first questions on integrated project and the early engagement, one thing I want to highlight is that Subsea 7 are already working on these types of activities and have done FEED and pre-engineering work quite successfully on a number of project. The alliance that we are putting together is going to strengthen even further our capabilities. Today we are already working on four to six projects, potential projects with our partners, and we are expecting more to come in the future. Regarding the guidance, Ricardo do you want to comment?

Ricardo Rosa: Yes, James, I think, we have indicated earlier that the guidance that we have provided for 2015 already includes the impact of the downsizing cost that I've described in the fair amount of detail. And we basically indicated that the impact on the year will be broadly neutral.

Philip Lindsay (HSBC): Good afternoon, gentlemen. Two questions please. When we look at the order intake potential for the second half, do you deem it possible or likely that you could maintain the rate of order intake that we've seen in the first half which was running at around 0.75? Thinking ahead to next year where the street is looking for the low with double-digit revenue declines in '16, just trying to get a sense of how realistic that might be. That's the first question.

Jean Cahuzac: Thanks Philip for your question. It is too early to comment on 2016 and we are not going to comment on next year. What we said and the timing of project award and the order intake trend is highly volatile. So it's very difficult to predict what can happen in the very near-term. And the timing of very large projects can have an impact on order intake on the given quarter and that's not new, but it's probably even more of a moving target in today's environment.

Philip Lindsay: With a change in tack and thinking about the alliance specifically with OneSubsea, I just would like to understand how you see it evolving and whether there is actually any sort of commitment to do collaborative R&D as part of this. I'm just trying to get a sense of sort of how powerful this combination could be over time and perhaps you could also indicate what the initial response is being from your early marketing efforts.

Jean Cahuzac: I am going to let John answer the specific aspect of the technology. I must say we are quite excited about our alliance with OneSubsea and for me it is the best partner to propose solutions for clients starting with downhole up to the production site. John?

John Evans: One of the areas we are going to look at is the technologies and what we need to do to lower costs together. If you look at our industry, we've historically demarked the allocation of work between downhole and SPS and SURF and then the LoF bids so a certain way. So we have a work group looking at the technology potentials between the two companies. And we will certainly go into this alliance within open mind as to what new technologies we may choose to deliver together. So we are having as Jean says some good positive feedback from our key clients and a couple of our key clients have identified specific projects that would like us to start looking in the next six months with them on that.

Jean Cahuzac: One of the things that I would like to add also is to succeed in this type of partnership and alliance. You need the approach to be both by the teams and I am particularly impressed by the enthusiasm and the quality of the exchanges that we have between the teams of both companies already. This makes me very comfortable that we are on the right track.

Andrew Dobbing (SEB): Good afternoon. A couple of questions, first, could you give us an idea about the aggregate revenue contribution you're typically seeing from the 12 vessels, you are planning to idle this year and next year. That's the first question and secondly I am a bit surprised by some of the vessels which you outlined for idling perhaps the *Seven Navica* stands out as being pretty active this year, it is a rigid lay vessel. Is it fair to assume that the flexible market is holding up a little bit better than the rigid market and you've said that it varies a lot from vessel to vessel? For vessel like, how quickly could you get it back into the market if required?

Jean Cahuzac: I'm going to let John answer your questions but I would say that the rigid pipelay vessels/the rigid pipe market is still very attractive and I would say at least as attractive as the flexible market.

John Evans: Yes, Andrew, thank you for your question. Regarding the *Navica* as you know we have the *Oceans* which is a bigger reeler than the *Navica* and we foresee in the next couple of years we can probably liquidate everything we need to do with the *Oceans* and therefore then we will cold stack the *Navica*. She is a vessel that we have stacked once in the past and therefore we can get back the life again quite quickly. You asked about the view on flexibles, I guess the view on flexibles for us is the volume of flexibles we install is always distorted by Petrobras which is a solid constant volume work that we do on the PLSVs; but as you'll see on the list of vessels, we're also taking flex-lay vessels out of our fleet as well such as the *Neptune* and the *Skandi Seven* as well. So what we're trying to do here is to cut our cost according to the market that we see in the future.

Andrew Dobbing: Thank you. And could you give an idea about the typical revenue contribution you've seen from those 12 vessels. I'm not thinking vessel by vessel but just on aggregate, a rough idea of what you think we could be losing in terms of revenues from the 12 vessels you're taking out of the fleet?

Jean Cahuzac: Very difficult question to answer. As you can imagine for the same reason as we cannot give guidance for 2016 because of the uncertainty that we have at this stage, would be very difficult to give you a value for the aggregate at these 12 vessels. All depends on what would have happened on the market, what will happen on the market and to refer to the past is not necessarily relevant.

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Christyan Malek (Nomura): Good afternoon, gentlemen. Just two questions if I may please. First in terms of restructuring of the fleet, I know you won't talk about for 2016 guidance which is arguably premature, but assuming there are major projects for the next 12 to 18 months. What exactly is your plan for some of the high-end vessels which I notice are still alive and well and working through the current backlog, what decision to continue to subsidise the cash cost of those vessels or will you have another round of cutting, is there a clear mandate from the outset regarding the most s profitable and highest contributing vessels?

And the second question is regarding the pricing of new work, is there any way you can quantify the percentages from last year to down 20, 30% in absolute terms and how we found a floor given the over-supply of capacity or could we see prices down further from here, where do you sense the sort of equilibrium at the moment?

Jean Cahuzac: Thanks Christyan for your question. Regarding the market I wouldn't make the assumption that there will be no large project awarded to the market in the next 12 to 18 months. We are still seeing projects being discussed and I think projects will be awarded to the market. In terms of the utilisation of the highest specification vessels, it's obviously key to have utilisation for these vessels and we will market them aggressively to secure more work. Regarding the pricing of the new work there is no doubt there is pressure on the margins. As I mentioned in my comments more on small projects than large projects but this pressure does exist. The way I look at the pricing of the project is as follows; I think it's very important whatever the condition of the market is to look first at the cost and the risk and the required contingency when you bid the job. And I would say, we haven't changed our approach for that we are lowering our cost through optimisation, simplification of our processes, standardisation that allows us to be competitive, but we are putting the right price, the right cost in our tendering. We are putting the right operational contingency and we are not accepting risk on terms and conditions that we should not accept. And once we have done this base work then on a case by case basis we look at margins and in some cases we have to be a very aggressive on margin because there is a lot of competition or because we are filling gaps for the utilisation for the vessels and that does push the margin down. That is the nature of the world we are in down turn market. But it's important to remain disciplined and we are disciplined and we will go through the down turn by keeping the same approach.

Christyan Malek: Would it be fair to say this is a very simplistic way to do it but oil prices are far therefore is there your margin should have halfed the prices also some of the quantification where margins are normalizing too, I don't want to focus on 2016 but just where is the margin of returns moving to for the subsea industry? How do you see it? Within the range or can you quantify that?

Jean Cahuzac: I'm not going to comment on that. The margin will be under pressure no doubt. But I cannot give you figures. The overall financial result of a company like Subsea 7 is based also on our ability or execution and we are doing very well. It's based on recovery of fixed cost and that's where utilisation of vessels is important. And it's also to some extent market driven. We are still seeing contracts awarded to Subsea 7 at a higher price than some of our competitors because the operator knows that there is a higher chance of good delivery of the project with us than some of our competitors as it has been the case very recently. So that hasn't changed and that will allow us to mitigate the impact somewhat which the challenging environment imposes on the sector. But we'll have margin going down. I mean the margin will go down until the market picks up.

Christian Malek: And just a quick follow-up. On consolidation we're clearly seeing these JVs emerging in the industry. Could you make a case for consolidating with one of your peers given the other side of the market and that's not putting words in your mouth, but is there an opportunity that you would consider over the next 12 to 18 months?

Jean Cahuzac: You know mergers are good for the industry. There may be opportunities. There may be no opportunity. We are looking at options as well as I'm sure some of our competitors are looking at options. So, I think I'll leave you guessing on that one.

Rob Pulleyn (Morgan Stanley): Thank you. Three questions if I may. The first one is you're removing eight of your own vessels and taking equipment of four more chartered vessels, but there is no impact on the value of that equipment and or is that sort of yet to come as and when those vessels actually physically leave the fleet so just if we can maybe have a bit of clarification about whether there's any asset write downs associated with the fleet reduction from here? And the second question; and I'm sorry I didn't quite catch this earlier Jean but over the $550 million cost savings does that include or is that net of the new PLSV's coming on which of course will increase the cost base or should we just consider this as a like-for-like change and the PLSV's are something different? And then finally, with all these asset moves in 2016 I know you're not going to give operational guidance but would you be willing to give us a bit of a steer on where D&A could land for 2016? Thank you very much.

Ricardo Rosa: Good afternoon, Rob. I guess taking your question in reverse order. It's premature to give you a steer on the D&A for 2016 at this juncture. As you know traditionally we provide guidance towards the end of the year, and we will stick to that routine. The second question you raised the $550 million is gross savings. So its $400 million reduction in personnel cost relating to 2500 employees that we have highlighted in our presentation. Plus $150 million in non-employee related cash costs associated with the vessels that we are taking out of service. So when the new vessels are delivered and become operational there will be an increase in cash costs and depreciation associated with each one of those vessels as they come into service.

Jean Cahuzac: And there will be the additional revenue associated with these vessels and that includes the five year term contracts with Petrobras on the PLSVs.

Ricardo Rosa: Lastly I think talking about taking the 12 vessels out of service. I think you were asking whether or not we had considered whether their value to the business was impaired? Clearly for the charted vessels this is not an issue. They return to their owners and the owners would decide what value to attribute to them. As far as our own vessels are concerned, the eight vessels that we have ear marked for stacking. We look every quarter closely at the continued economic value for each vessel in the fleet. And we have done so this past quarter and concluded that based on what we know today based on our projections for going forward and based on the book value of each of the vessels concerned there is not a bases for taking any impairment. So I am not saying that there is no risk, that one happen in the future. We will continue to evaluate this on a regular basis and keep our investors informed.

Rob Pulleyn: That's very helpful Ricardo. And if I may just have one follow-up, could I push you for a net cost savings number of the gross you've announced minus the PLSV's when they come on line in 2016?

Ricardo Rosa: I would suggest that there is sufficient information for you to arrive at an informed guess on the potential impact of new vessels. And I am sure that your skills in modelling and those of your team will come up with an answer that is appropriate.

Nicholas Green (Sanford Bernstein): Good afternoon and thank you for taking my question. It's a general question on the Southern Hemisphere Division please. So, in your prepared comments you mentioned quite a few projects are nearing completion or fairly far progressed, clearly the backlog is getting smaller there and it's an area where there is a great deal of new work coming in just yet. So with that in mind do you have any concerns that the cost base in this sort of underlying viability of that business is okay? And connected to that, is the cost cutting plans that you announced reflect in your view that is particularly difficult market or have you assumed effectively, a decent amount of order intake coming into to rectify the problem of a fairly old backlog in that region. That's my first question thanks.

Jean Cahuzac: Thank you. The cost cutting that we have decided to implement is based on our estimate of what we see coming on the market and we are doing this cost reduction while keeping the core expertise that we need to continue to win project, keeping our clients confidence in Subsea 7 to deliver the project. So, there are a number of assumptions. There are projects which could materialise in the Southern Hemisphere. Timing, as we said before is very uncertain, but Subsea 7 is have shown flexibility and we have shown that we are proactive if further actions are required in the future we will take the necessary action. It would be premature to go further today with what we know about the market.
Regarding the Southern Hemisphere project we have in Brazil is expected to continue to generate solid financial results in the years to come. A number of projects are coming to an end in Africa and the timing of the replacement of this project by other large projects or middle sized projects will obviously have an impact on future results. We are also monitoring what's happening on the conventional in Nigeria and on some other projects in Asia and that all create uncertainty, we can't really give you more guidance on that.

Nicholas Green: Thank you. So just to confirm then for my understanding, the Southern Hemisphere is affectively being hit by double whammy here, with fairly old backlog and obviously a difficult new market. Is the cost cutting plan you've announced reflecting that position or is that something you are going to have to review over the next quarter or two and consider whether further measures are needed for the Southern Hemisphere division?

Jean Cahuzac: No, from what we see today it does reflect our view and to answer your question, yes, it is in my view is the plan that we put in place is the answer to what we see on the market.

Nicholas Green: That's very helpful. And then a short follow-up question, returning to the vessel fleet. From my understanding from the beginning of the call is that the *Skandi Acergy* chartered vessel has been renewed and the *Skandi Seven* has been terminated or stopped. My previous understanding is that both of these vessels were due long-term charter hire, the first one until mid-16, the second one until Q1 2017. If those assumptions are right? Under what circumstance could you persuade DOF to conclude and terminate two vessel hires and replace with one vessel hire presumably there is a fairly difficult negotiation?

John Evans: We have a large fleet of assets and we also have some owned assets, which also can do some of the activities that some of these vessels that are being discussed can do. So we ran into this with the view point of trying to understand what was right for Subsea 7. And what we needed was early re-delivery of some of the higher cost vessels and a view then on some of the lower cost vessels extending those contracts. We went into that discussion with an open mind and as did ship owner on the other side and we concluded with an arrangement that works well for both companies. The important thing to remember with our model is that we always have owned assets in the fleet as well as some chartered assets and that gives us some ability to balance out what we need through the cycle in terms of what we choose to do. So I think we ended up here with the view of putting eight of our own assets into stack and four assets being returned is the right balance for us. As we discussed before, we'll take all the equipment of these vessels. We own all the equipment on these vessels for pipe-laying equipment the vertical-lay towers and such like. We will store those in our yards and we will have that equipment available as Ricardo says when the market picks back up again, we'll go ahead and pick up another vessel and have the capability and capacity as the market picks up.
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Nicholas Green: But presumably DOF wouldn't have wanted that; two firm contracts, which would have continued on for many months ahead in persuading them to let go of the *Skandi Seven* which was given until March 17. Is it fair to assume that you may have to pay a higher day rate or longer contract to make deal worthwhile for DOF?

John Evans: We made that deal worthwhile for ourselves, that's all I can say.

Amy Wong (UBS): Good afternoon. I had a couple of questions around cost please. The first one relates to the $550 million of cost savings. You mentioned that it was going to have a net neutral impact on your adjusted EBITDA guidance, so does that imply that the cost savings so far of this pool is roughly $140 million, is my math correct? And then secondly staying on the topic of cost, in your fourth quarter 2014 full year presentation, you provided a pretty helpful slide in breaking down your operating expenses by people and procurement and other costs. Would you have some of those numbers handy in terms of looking at your first half numbers please?

Ricardo Rosa: Taking your first question, I would say that just to reconfirm what we've said, we said there was $400 million on the annualised cost savings that we estimate will result directly from this downsizing program that we've undertaken, having announced it in May…on the people side. That is correct. And there would be a further $150 million reduction in the cash cost associated with our fleet as a result of our decision to stack a number of vessels. Those are annualised run rates going forward and which will be impacting, we believe 2016. Bearing in mind of course that we're going to have new vessels coming on-stream as previously discussed in response to Rob's question. What we do believe is that the cost of the downsizing plans which we have estimated at up to $140 million and again that's just people and cost associated with people. We believe that, over the course of the year will be largely absorbed by cost savings achieved in 2015. As far as the guidance that we have provided in respect to the full year 2014 and the short answer is no, we are not in a position to provide you with that guidance at this stage, but we will consider it in due course.

Mukhtar Garadaghi (Citigroup): Good afternoon gentlemen. Just two quick questions from me, for the largest sort of work out there, you know the likes of Bonga or West Nile Delta that are out there for discussion how have the sizes of this award shrunk over the last year, and any information that would be great? And you know the second question is around to sort of Tier II players which have introduced quite high capacity assets in the recent months and quarters. Are you seeing some aggressive bidding by those players and is there uptake from your clients, sort of to allocate high end work to some of these new guys? Thank you.

Jean Cahuzac: On the your first question on projects, in fact the number of projects hasn't changed and there are projects which are coming back for discussion but the industry find the ways to lower the cost and we are working actively with a number of operators on specific projects to see how we can help them to lower the cost. And what is still the same is the uncertainty of when these projects will come to sanction. It's a combination of lowering the cost of the projects together through innovative solutions and in some cases technology, but it also depends on priorities and cash flow management of the operator. So uncertainty on timing is still there. And I don't see changes from Q1 from that perspective. The projects are still there. They are just impossible to tell you when they will come to sanction.

Mukhtar Garadaghi: Sorry, Jean. Just on that first question actually in the last year on the size let's says in given SURF where there was a $1 billion. How will you able to downsize that already. The industry how we've seen that 20%, 30% cost savings that was talked about on a given award.

Jean Cahuzac: It all depends on the project and if you have straight forward project where there is no technology and it's a standard tie back, I think it would be a bit ambitious to say that the industry is going to lower by 30% the cost. There are projects that are more sophisticated projects where the different approach, standardisation, different way of working and innovative engineering with engineering can generate more than 30% savings. So it all depends on the project.

Mukhtar Garadaghi: Thank you. And just the new players?

Jean Cahuzac: Well, the new players, we are seeing the new players being very aggressive and in some cases I would say ready to take some terms and contractual risk which in our opinion shouldn't be taken. But what we are also seeing which is reassuring is the client give a value to what company like Subsea 7 can bring in terms of confidence in delivery and a way to lower cost for the operator and in fact to accelerate oil and gas. So the performance side is also part of the equation. So yes, there is more competition some cases competition can be very aggressive. But we keep our approach and I think our clients like that.

Kevin Roger (Keppler Cheuvreux): Good afternoon, everyone. Thanks for taking my question. The first is a follow-up on the order intake trend. Even if I understand that you don't want to give pre-guidance on figures, but your intent is quite positive about the first part of the years compared to competitors. And I was wondering what could be the trend the H2 I mean that you register around 600 million of order maturing in 2016 during the first part of the year. Some competitors seem to be expecting more important than there is second part of the year. So is it fair for you to consider that the H2 order intake maturing next year will be stronger for the rest of the year? And the second question is on the sale that you are expecting to stack or sell in case of any session what could be the range of the amount? And what could be the impact on D&A for next year? Thanks.

Jean Cahuzac: I will answer your first question and I think on the second question maybe ask you to rephrase the question I am not sure I fully understood. But regarding the first question, very difficult to tell you what our order intake will be in the second part. What I can tell you is that we are competitive I think we are very competitive because we are lowering our cost and the client sees the value of being able to deliver all the projects in a consistent manner. But we will see what happens in the second part I mean the competition is also quite aggressive on projects so future will tell. The only thing I can reassure you on is what I said before we are not changing our approach on cost in the project, risk taking and in doing that we remain competitive, but we'll see I cannot really comment further on that.

Kevin Roger: The second question is related to the reduction of your fleet. You're saying that you will stack or sell eight vessels. I mean if you sell any vessel in the second part of the year or in 2016, what could be the range of the cash impact, and what could be the impact on your D&A for next year?

Ricardo Rosa: Kevin it's a very difficult question you are asking there. The assumptions that we've taken on cost reduction assume that all vessels are stacked we have not assumed any sales I think that's starting point. The cash impact and the impact on the D&A will depend on the vessel that we dispose of and to state the obvious the price that we achieve. And that's as far as I can guide you I mean I think the depreciation profile of each vessel will vary, and what I can say is that whilst they remain stacked, we will continue to depreciate them. We don't touch their useful lives and we don't make any changes to the accounting policies that we've been applying.

Frederik Lunde (Carnegie): Thank you and congratulations on very good numbers. A very tangible question on my part. Looking at the second half of the year, how do you see Q3 and Q4 shaping up given that you have account 8 big projects due for completion soon? Is it fair to assume very strong Q3 and much more muted Q4?

Jean Cahuzac: Well, no we haven't changed our guidance for this year, at the end of the year. I would say traditionally Q3 is stronger than Q4 and Q4 can be challenging particularly in the North Sea, because of the seasonality effect on operations. I don't think I can comment further.

Frederik Lunde: Okay. And just one more add-on, if you look at the quarter now, would you say that cost reductions and lower bidding cost have been a major part in driving earnings this quarter?

Jean Cahuzac: I think cost reduction and the initiative that we took last year with the new organization are going in the right direction and have play the role. But is not the only thing, which happened. I mean, the main factor is the status of the project and coming to the end of the project, the execution of the project are in the final stage. All that being combined with a very, very good execution, and I would like to thank our team again all around the world for their commitment in difficult circumstances to deliver what they are delivering for Subsea 7.

Jean Cahuzac: Well thank you for your questions. I think it's time to end the session. But before we finish, just to wrap up. I'd like to say that in today's challenging business environment there are number of elements that we cannot control such as price of oil and its impact on our clients investment timing. Our initiatives allow us to make more projects viable for our clients, so earlier involvement, our technology and consistent delivery of our projects. And I see the strength continuing further. I think we can bring Subsea 7, but also with our alliance partners valuable solutions for our clients to make more projects viable for approval. And the last point I want to mention is time that we will continue to take the actions required to navigate through the downturn and at the same time we will continue to build a stronger company for when the business environment will improve. And I'm convinced that we can do that. So it brings us to the end of the call. And I'd like to thank you for participating. If you have any additional questions regarding our results today to please call Isabel, thank you again.