

Subsea 7 S.A. Update on Guar-Lula NE project offshore Brazil Conference call transcript - June 27, 2013

Speakers

- **Kristian Siem – Chairman**
- **Jean Cahuzac – Chief Executive Officer**
- **Ricardo Rosa – Chief Financial Officer**
- **John Evans – Chief Operating Officer**
- **Paul Gooden – Investor Relations Officer**

Paul Gooden

Thank you, and good morning, this is Paul Gooden, Investor Relations Officer at Subsea 7. Joining us today are Kristian Siem, Chairman of the Board; Jean Cahuzac, CEO; Ricardo Rosa, CFO; and John Evans, COO. Before we start the conference call I'd remind you that certain statements made in the course of this call which express the company's intentions, beliefs and expectations, are forward looking statements. Future results and trends could differ materially from those which are given in such statements. Details of these can be found in the company's filings, including the company's annual reports. With that, I'll pass you on to Kristian.

Kristian Siem

Thank you Paul and good morning ladies and gentlemen and welcome to this conference call to talk about the Guar-Lula project in Brazil. The board met last night and many of you probably ask the question, when they first announced the problems with this project, is this provision sufficient, or will there be more bad news. You are right that when a project begins to have problems it is often followed by more problems, as we now experience on the Guar-Lula. The problems we have experienced recently, however, are new and additional to the status when we last reported on this project. Let me be clear about our information policy. We inform you as timely and accurately as we know of the status as we assess it to the best of our ability. Can the situation deteriorate further; yes, but no more than it can on any project, therefore this is our best assessment at this time. Let me also put the Guar-Lula project in some perspective; it represents 5% of the backlog, and the other 95% of our projects are performing satisfactorily. I will now ask Jean Cahuzac to give you a summary of the Guar-Lula project before we take questions. Jean.

Jean Cahuzac

Thank you, Kristian. Good morning, ladies and gentlemen, and thank you for joining us at short notice for this update on the Guar-Lula project.

I am sorry to have to organise this call only six weeks after our first quarter earnings release, but as Kristian said, we have always been in the past, and we remain committed to communicate in a timely manner changes on our projects, when such changes might have a material effect on present or future group financial results. Much has happened in the intervening period on the Guar-Lula project, so let me update you on the challenges that we are experiencing.

First, we moved into the offshore phase of the project in the second quarter, with the Seven Polaris and the Seven Oceans being deployed on location. We are experiencing more weather downtime than originally planned due to severe weather conditions in the Santos Basin during the Brazilian winter. We have suffered equipment damage and the resulting downtime on the Polaris due to this bad weather. We expect these conditions to continue until the season is over. Although we are contractually covered for time spent by the prime vessel waiting on weather, we incur additional costs, both offshore and onshore, which are not covered. In addition, we have taken a more cautious approach in evaluating what can be achieved offshore during periods of calm weather, in view of the complexity of the facts involved.

Second, the stretched supply chain is resulting in delays from international and local suppliers. For example, the daily reschedule of the subsea connectors from Norway and the third and fourth buoys from China has been delayed. These delays have in turn resulted in additional costs to expedite supplies, additional custom duties and associated taxes, and additional logistics costs. Commercial disputes have also arisen with suppliers, and our costs are impacted by lack of logistic resources available in Brazil, for instance, barges and stuff like that, to be able to meet our revised delivery schedules.

Third, there was a delayed start to pipeline fabrication at the Ubu spool-base largely due to customs clearance issues. Initial productivity at Ubu has also taken longer to ramp up than expected, although we are now beginning to see encouraging signs of improvement.

The combination of these three factors as we entered the offshore phase has led us to take a more cautious view on timing of the project. We now expect the offshore phase of the project to complete in the third quarter of 2014 as compared to a previous expectation of first quarter of 2014.

A re-evaluation of the offshore risks based on experience to date, and the extended timeline of the project, has resulted in us increasing the estimate full-life project loss by between \$250 and \$300 million. The Brazil's second quarter net operating income will be impacted accordingly.

These costs increase are not expected to result in a reduction in our tax burden for either the quarter or the full year of 2013 and, as a result, our underlying effective tax rate is now expected to be higher than our previous guidance.

We continue to make progress on the project with physical progress rising from 47% at the end of the first quarter to 56% at the end of May. As I previously mentioned, the Seven Polaris and Seven Oceans are deployed on location, and a project team of 220 people are fully mobilised at our Rio and Niterói offices.

The foundations of the first two buoys are largely in place and the first buoy will be ready to mobilise to the location by mid-July, weather permitting. We are collaborating with our client, Petrobras, to ensure a successful outcome from a technical and operational standpoint.

I would like now to talk about the future of Subsea 7 in Brazil. As I have mentioned in the past, we have made mistakes on Guar-Lula. The project was awarded in 2010 when there was spare capacity in the oilfield service industry. Thereafter, the demand environment improved, the supply chain tightened, and we underestimated the specifics of the Brazilian supply chain market. The complex tax, customs, and environmental regimes in Brazil, together with a tight supply chain and the challenges of certain Petrobras contractual terms and conditions have significantly increased the risk profile of this project.

Lessons have been learned, and we will not enter into such a contract in the future in Brazil. I do expect that post Guar-Lula, by focusing on profitability and risk mitigation we will achieve satisfactory margins in Brazil.

At present we have effectively four business activities in Brazil; I will deal with each in turn. First, we currently own and operate six Pipe-Laying Support Vessels, the PLSVs. We plan to continue to develop our PLSV business, which operates on a day-rate basis and where we are confident that, we can achieve reasonable margins and returns with an acceptable risk level. We are currently negotiating the renewal of a number of our PLSVs, and as you know, we participated in the tender for new builds.

Second, we expect to remain active in the post-salt with Petrobras for projects with lower risk, with a lump sum in transportation and installation business model, I mean the T&I business.

Third, there are EPIC lump-sum projects in the pre-salt, such as the Guar-Lula contract. We will work with our client to ensure successful completion of the Guar-Lula project, but we will not tender to Petrobras for further EPIC lump sum projects in the pre-salt unless the proposed terms and conditions, project delivery schedule, and associated risk profile improves significantly.

Fourth, we have worked successfully with international oil companies, mainly in the Campos Basin, and we continue to see good EPIC lump sum tendering opportunities in that business.

To conclude, Guará-Lula is the first pre-salt development for Brazil, and it is one of the most technologically demanding projects ever undertaken in the industry. The loss we expect to recognise in the second quarter reflects a prudent evaluation of the cost and risks associated with the remaining phases of the project. Lessons have been learned, and the mistakes will not be repeated. We will continue to be transparent and update you with material developments, both positive and negative, as we progress towards its completion. When looking at the group results, as Kristian said, I would like to remind you that the Guará project represents 5% of our backlog, and can confirm that the remaining 95% of our backlog portfolio is performing in line with expectations. Looking at our market globally, tendering activity remains high and we remain positive about the medium and long term market prospects.

So, with that we will take your questions. We will limit these questions to Brazil and the Guará-Lula project, as I will have the opportunity to elaborate more on our worldwide results and the market outlook at our Q2 earnings calls in August. I think with that we'll go to Q&A.

Operator

Thank you. As a reminder, if you wish to ask a question today, please press star one on your telephone keypad. If you wish to cancel your request, please press the hash key. So, once again, that's star one to ask a question, and please wait for an operator to take your details. Please stand by while we compile the list.

Fiona Maclean – Merrill Lynch

Hi, yes, it's Fiona Maclean from Merrill Lynch. I have a question about the tone of your message this morning; you don't seem to be particularly confident that this is going to be the only additional financial impact you're going to take on this project, so firstly, can you give us a timeline on when you expect to complete this project? And also, my second question is around the previous impact you've taken on this project in the past, and I'm pretty sure that, again, in the past you've said, you know, this is going to be the only hit we're going to take, we're not going to have to take any other, you know, have any other profit warnings on this project. So, really, what has changed and why haven't you been able to draw a line under this project in the years gone past?

Jean Cahuzac – CEO Subsea 7 SA

Well, thanks for the questions, Fiona. Our approach hasn't changed; when we look at any projects and you look at the schedule and the various phases under the project, there are really two phases, I mean, you have the engineering, the project management implementation, the preparation for the operation, and then you enter in to operations. So, on any project, there is risk associated with the operation, and until you actually go to operation, there is a question about what will happen during the critical phase of the project. So, when we looked at the project in the past and we always reported what we had as our best knowledge of the project prior to starting operations, and the previous losses that we had announced was based on this approach. What happened over the last six weeks is that we are now in the middle of the critical phase of operations; we have experienced a number of problems, as I explained, and we have an updated view on what to expect in the next 12 months until completion of the project. What we've done over the last number of weeks, driven by John Evans our COO, is review completely the resources which were assigned to the project, see if we needed to react in a different way to the new problems which have been identified, and we've done that. We have reviewed, in a prudent way, the revised schedules in terms of mobilisation of vessels; we have reviewed the potential risk associated with the weather during the winter period, and came to the conclusion that we explained this morning. So, it's a prudent view; it represents how it is the project to our best knowledge today; like on any project, until you have completed the project, there are remaining risks, but it's a prudent approach and an update of the figures the way we see it today. Can I say that nothing else can happen; no, but I would say the same thing for every project, but I'm comfortable that the work which has been done has been thorough enough and detailed enough to give a good view of where we are today.

Fiona Maclean – Merrill Lynch

And then in terms of the monetary value that you've announced today, can you give us some type of breakdown of that number relative to the bad weather and the equipment and the other various delays, or can you tell us which component is contributing the most to that hit?

Jean Cahuzac – CEO Subsea 7 SA

Most of these costs are driven by a different schedule, different challenges driven by the schedule of some of the suppliers, and the difficulties that we are foreseeing to address the logistics which are available in Brazil to this new schedule. Brazil is limited in terms of resources, and when you have to rearrange a schedule of the project, you need the new barges to move equipment, you have difficulties which relate to the project administration, because it takes a lot of time to change plan, to go through importation, to do the paperwork and all that. So, it's a very complex situation, which is partly due to the problems that the project is encountering, and also to a large extent due to the Brazilian environment. And correcting these types of problems outside of Brazil would be easier than it is in Brazil. So, to come back to your question, most of the additional cost that we are forecasting to the end of the project are time related and the fact that equipment's now on standby because of the delays, because we have rearrange the schedule. It's not really that we have got a significant increase of cost in Q2, it's a forecast for the end of the project. But that's our accounting rule, it's something that we have to recognise in the Q2 results, in a transparent way, and that's what we are doing.

Fiona Maclean – Merrill Lynch

Okay, I understand. And just a last question; you said at the end of the statement that you're not going to bid on any more EPIC projects with the same terms and conditions. Given that you signed this project about three years ago, are you stating in that commentary that the terms and conditions of EPIC projects that are being tendered for today are still not good enough for you to be bidding on?

Jean Cahuzac – CEO Subsea 7 SA

When we look at it from a global perspective, from an international perspective, the terms and conditions of the EPIC projects are terms and conditions that we can live with, and when we work with terms and conditions for IOCs in Brazil it's something also that we can live with. But the concern about EPIC projects, based on the Guar-Lula experience, is the overall risk profile of EPIC projects for Petrobras in Brazil. It's a question of terms and conditions, but it's also a question of who takes what risk, and in particular the risk associated with Brazil. It's more difficult to work in Brazil, it's a more complex situation because of local content, because of the administration, the importation, the tax; so it goes beyond terms and conditions of a contract; it's a different way of working with Petrobras which is required for us to continue to grow this business in Brazil with them. And that's the type of discussion that we intend to engage with Petrobras, but I wouldn't assume that in very near future you will see an increase of backlog for Subsea 7 in the pre-salt, because as we said before, we will not commit on the same risk profile for EPIC projects in Brazil. But I'm still comfortable with terms and conditions of EPIC globally; I'm still comfortable that we have the resources, we have the backup internally, we have the controls to be successful on this type of project worldwide.

Fiona Maclean – Merrill Lynch

Okay, thank you, I'll turn it over now; thank you.

Operator

Thank you. Your next question comes from the line of Jeffrey Stern. Please ask your question.

Jeffrey Stern - Cheureux

Yes, hi, good morning, Jeffrey Stern from Cheureux; I have a couple of questions; I was wondering, first, if you could be a bit more specific in terms of the revised guidance for this year, you know, consensus was looking for an EBITDA this year of \$1.2 billion, so would you now expect this to be closer to 950; that was the first question. And then just could you clarify when you expect precisely the project to be completed; is it June next year? Thanks.

Jean Cahuzac – CEO Subsea 7 SA

Yes, thanks, Jeffrey, for the question. When I look at our business and I look at what to expect for 2013, I look at the business without Guar-Lula, and then I add Guar-Lula to the picture. When you look at our business without Guar-Lula, things are progressing as expected, and we expect to deliver in 13 the same results we indicated we would deliver at the end of Q1, so there is no change there. I mean, we have a robust operation worldwide and I’ve no concern that at present. I don’t have a specific concern outside of Guar-Lula. By the way, when I was talking about the thorough review that we did of Guar-Lula after a few weeks of operation, we’re going through the thorough review of all our projects, and that’s why I’m building up this level of comfort. So, no reason to change what we said earlier on the end of Q1 about 2013, outside of Guar-Lula. And then when you look at Guar-Lula, that will have a direct impact on the 2013 results; it will affect Q2 EBITDA and net income; we will continue to work and monitor this project, and adjust the number as soon as something material happens or in our quarterly report. But again, when you look at our expectations outside of Guar-Lula, they haven’t changed; they haven’t changed in going upwards or downwards, they’re in line with our expectations. Regarding the project, the critical operations are now, until, I would say the end of the year, 2013. The risky part of the project will be, as far as the scenario that we’re working on, fully completed later in the year, and then we’re talking about all offshore operation which are easier commissioning operation of pipes etc. in Q3, 14 and closing the project probably at the end of 14, but the core of the project, the core of the operation are this year.

Jeffrey Stern – Cheureux

All right, and just a final one, if I may; just focusing on Brazil, I mean, what kind of normalised margin would you expect in this country?

Jean Cahuzac – CEO Subsea 7 SA

Well, I think when I talk about margin; I first look at risk profile. To actually deliver consistent results and acceptable results, in any part of the world, you need to be consistent and be able to manage your operation from the win to execute in a consistent way. Post Guar-Lula, I’m committed to deliver these consistent results in Brazil by changing the business profile, and for all the reasons that I mentioned before. So, we are going to have a different profile of portfolio, a different backlog, in the years to come, and therefore will be able to deliver; I expect that we’ll be able to deliver consistent results in Brazil. In terms of the margin, it depends on the portfolio of projects; on the lower risk projects, if you take the day rate contract we have in the North Sea, or the day rate contract with PLSVs, it’s a reasonable margin, low risk, good results. Is it top margin; no, the top margin will be on the more sophisticated projects, which have a higher risk profile, and we can manage this higher risk profile outside Brazil, so I expect higher margin outside of Brazil on these very large technology projects, So, reasonable margin, lower risk, consistent results.

Jeffrey Stern - Cheureux

All right, thank you.

Operator

Thank you. Your next question comes from the line of Andrew Dobbing. Please ask your question.

Andrew Dobbing – JP Morgan

Yes, hi, it's Andrew Dobbin here from JP Morgan. A couple of questions please; first of all, how much of these cost overruns do you think can be attributed to the technically challenging nature of this riser configuration? I mean, these free standing risers are still quite novel, I guess; I don't think anyone really has a lot of experience in the installation of this kind of free standing risers in ultra deep water. That's the first question. And secondly, it sounds from your comments like you're planning to import more material into Brazil; is that having any impact on your local content requirements? Thank you.

Jean Cahuzac – CEO Subsea 7 SA

Yes, thank you, Andrew. I'm going to take the second part of your question first, and then answer on the technical aspect of the project. All the numbers that are associated with what is required on the supply chain, local content, timing of importation, is to our best knowledge, included in the numbers that we published, so we've taken into account all that. We come to the end of the supply chain delivery of equipment, so I think this risk overtime is diminishing significantly, and the costs which are associated to this have already been taken in the past and have been addressed as needed now. So, from a supply chain perspective, we have, in the numbers, which I believe is required, to cover for this supply chain aspect of the plan. When you talk about the innovation and the technology which is being used on this project, you're quite right; it's the first time that such technology will be installed in Brazil. We haven't seen today, when we look at the engineering of the design of the equipment, we haven't seen any material change compared with what we thought the project would be. I mean, there's no bad surprise on the design. What is affecting the overall cost of the installation is what I mentioned before. Because of the delays that we have experienced, we are now in a winter season to install this equipment, and I have to say, it would be far easier if it was summer, and that's what we take into account in these new numbers, and we're taking a prudent way in the sense that based on the last six weeks to eight weeks, we have updated the weather data, we have a better understanding of some of the motions of some of the vessels in a very complex weather environment in Brazil. But there is a risk associated with the installation, that there is always a risk associated with new technology. I was mentioning the 220 people we have today in Rio; they are part of the cost, and they are focusing on the running of a safe and efficient operation. But I think we are well prepared; we will keep you informed of the progress that we are making on the quarterly earnings, and that will include the installation of the buoys and the riser.

Andrew Dobbing – JP Morgan

Is the installation...I think in the original press release for the award of this project, it was talking about installation scheduled to commence during the second half of 2012. Is that kind of, push out into kind of, 2013; I guess, are you hitting...has that meant you're hitting worse weather, has that been kind of, part of that problem, that it's just started later, slightly later than expected?

Jean Cahuzac – CEO Subsea 7 SA

No, no; we started later because of the problems that we had in 11 and 12 which related to the environmental licence in Paraná which led us to reorganise completely the project. We also reviewed the schedule in 11 and 12, and agreed with the revised schedule with Petrobras, which is the one we are implementing today. We are a couple of months late, which is a problem because we are hitting now the winter, but not by a year, I mean, what we had in the revised schedule at the end of 2012 agreed with Petrobras and in our numbers at the time, was showing installation in 13, so there is no drastic change over the last six or eight weeks there.

Andrew Dobbing – JP Morgan

Now, tell me, are there; sorry, just quickly, final question; are there any kind of penalties; I mean, this project's finishing a little bit later than expected; are there any kind of direct penalties associated with that late completion?

Jean Cahuzac – CEO Subsea 7 SA

Yes, I mean, I don't want to be too specific on the commercial discussion that we're having with Petrobras; I mean, on these projects there are always risks of LDs and all that; I think we had a prudent approach and our cost estimate a number of our contractual obligations, which are today under discussion with Petrobras.

Andrew Dobbing – JP Morgan

Very clear; thanks very much.

Operator

Thank you. Your next question comes from the line of Kristian Diesen; please ask your question.

Kristian Diesen - Pareto

Yes, Christian from Pareto here; just on Petrobras and your relationship with them; are you in any litigation or dispute with them at the moment?

Jean Cahuzac – CEO Subsea 7 SA

Well, we are in discussion; we are not in litigation; we are in open and honest discussion with Petrobras. We have a common interest, which is to complete this project as soon as possible, so that the oil starts to be produced for Petrobras and that we put this project behind us. So, as you can imagine, there are a number of discussions ongoing with Petrobras at the highest level, and we want to work with them to find a solution to put this project behind us. It's not easy for Petrobras, it's not easy for us; we need to align our objectives and that's what we're trying to do.

Kristian Diesen - Pareto

So, this project is not something that will impact your ability to take on new projects, most importantly perhaps, the renewal of the PLSVs and the new builds that are up for award?

Jean Cahuzac – CEO Subsea 7 SA

The relationship with Petrobras is good; we have different views on a number of issues, which is expected on any project when you have difficulty like that. I think the fact that we are not willing to work on an EPIC basis post Guará-Lula; that has been made very clear; and that will take some time to be resolved. For more standard operation, I think it's business as usual.

Kristian Diesen - Pareto

All right, thank you.

Operator

Thank you. Your next question comes from the line of Christyan Malek; please ask your question.

Christyan Malek - Nomura

Hi, good morning. Two questions, if I may; first, on the portfolio itself, you mentioned the rest of the portfolio is fine; what can you sort of, envisage, on these EPIC projects, what could be the read-across in terms of the risks on projects that you've signed elsewhere? I know that everything is progressing well towards the end; is there anything in terms of the way the contracts have been written elsewhere in the business, or the risk profile with EPIC projects, that could suggest that, the next two years we could see something, some sort of charge associated with something else in the business? And the second question, regarding Brazil, is it, just to be categorical here, you are not going to be winning, you're not going to be bidding on any EPIC projects in Brazil; is that right?

Jean Cahuzac – CEO Subsea 7 SA

On the other EPIC project, there is no change on our backlog outside of Guar-Lula. On the risk profile of these projects we have been always very disciplined to mitigate the risk on a contractual perspective, and a sharing of the risk profile with the operators, outside of the Guar-Lula. So, there is always risk associated with projects; that hasn't changed; that will not change; but when you look at the number of projects that we are running, the status of these projects, the flexibility that we have now in Subsea 7 in terms of additional resources, the portfolio of vessels etc. I'm as confident as I am today than I was a couple of months ago about our chances of delivering a good return and being successful. Guar-Lula, for me, is a one off. I mentioned before, we've made a number of mistakes on Guar-Lula when we committed to these projects, and we have underestimated some of the Brazilian factors. As far as I see it, it's a one off, and what is important is not to repeat this one off in Brazil, and that's what I'm committed to. So, are we going to run other EPIC projects in Brazil; if you go back to the four businesses I was referring to, there are a number of projects on the lump sum or EPIC basis which will be executed in the years to come with IOCs in Brazil, which are smaller projects than Petrobras, but also on a different business model than with Petrobras, and we have been successfully executing these projects in Brazil. I believe we can continue to execute successfully these projects with IOCs in the future, and there is a couple of tenders, there is a tender ongoing, there is a couple of tenders to come, so we will remain in this business, and I'm comfortable that we can deliver on this project the same type of result that we are delivering outside of Brazil. There are some lump sum day rate type projects with Petrobras that we can also execute, and one of the good projects, if I want to take an example, is the Seven Seas project that was announced two quarters ago, which is a combination of a small part in lump sum and day rate. No supply chain, everything in the hands of Petrobras, they are taking the risk; that's fine with us, and we can deliver to their satisfaction and to our satisfaction, this type of project. So, we are open to continue with these projects. There are some new projects coming on the pre-salt, with rigid pipe development, which are maybe with different technology than Guar-Lula, but with the same business model and the same risk profile; that's what we are not going to do until we can work together with Petrobras to define a different model. That will take some time.

Christyan Malek - Nomura

And just to be clear, you say Brazil's a one off, but the bid process, sort of, the risk management, all that internally, was that not surely the same in Brazil as it was elsewhere in 2010? I mean, what's different in Brazil; is it just a completely separate team that went out and bid for this project and everybody else in the rest of the world was doing something completely different? I mean, just try to explain, exactly how Brazil can be sort of, contained separately from everything else?

Jean Cahuzac – CEO Subsea 7 SA

Yes, when I say Brazil, I am talking about pre-salt Petrobras. I mean, there is a tender, which is BC10 with Shell, which is today on the market. We are bidding, our competitors are bidding; I think both us and our competitors are comfortable that we can deliver this type of project. So, what's different on the pre-salt and on Guar-Lula; I think the first thing is when we bid this job we underestimated how stretched the worldwide supply chain would be, and we probably underestimated what it would take to deliver such a project in an environment which is an environment of 2012, 2013. You've seen the difficulties that even reputable suppliers are having to deliver, and you know, I mentioned in my comments that we were impacted in Q2 by some delays, unexpected delays of equipment from Norway and from China; so that's not Brazil, that's the overall world. The size of the project is also very big, and then you have the Brazilian environment, and I

think what the industry has to face in Brazil is a combination of stretched resources worldwide, combined with some local requirement which makes things more difficult for the supply chain, and then combined with a very difficult environment from a Brazilian administration perspective, importation, regulation, tax and I could speak about that for hours. Which was already difficult, but when you look at the workload of everybody, the lack of resources becomes very, very difficult to manage. And that's what we had underestimated in 2010 when we bid for this project. And I think there is another point, and I think Petrobras probably will agree with what I'm going to say, it's that I think the model which was implemented with Petrobras is different from the model that we had in the past with Petrobras. We are now working on EPIC projects and it's a different way of working.

What I mentioned what has changed was the overall environment worldwide on the supply chain, the fact that the overall setup of Brazil, in my opinion, is not able to cope with the increased activity. When you talk about importation, you talk about administration and all that was very difficult. And then the last point was this change of contractual approach with, or business model with Petrobras, going with a full EPIC approach, which I think has shown that it was more difficult than we thought it would be. So, it's a combination of all these factors.

Kristian Siem – Chairman of the Board Subsea 7 SA

We've been in Brazil for 20 years, and the reality is that our margins that we have experienced generally in Brazil have been lower than the rest of the world; there is a difference between Brazil and the rest of the world, and that comes from all the factors that Jean just summarised, which has to do with the country risk, the way things are in the country, in addition to the fact that the risk sharing in the contracts with Petrobras is not more favourable, it's less favourable to us than it is in the rest of the world.

Jean Cahuzac – CEO Subsea 7 SA

And that's what we have to take into consideration when we define the way forward, and that's what we intend to do with our approach in the future.

Operator

Thank you, your next question comes from the line of Goren Anderson; please ask your question.

Goren Anderson – Platou Markets

Good morning; I have two questions, so the first one; you expect the most critical phase of the project to be completed later 13, but you will still have some remaining scope in 14, and a larger scope now than we thought it would be. Could you give a ballpark figure on expected dollar value to be executed in 14 on this project? And then the second question is, will the bad weather that you see now for Brazil in the second quarter have a material impact on the contribution from the PLSV day rate contracts in the second quarter? Thank you.

Jean Cahuzac – CEO Subsea 7 SA

Yes, to answer to the second part of your question, there is no impact of the weather on the PLSV operations; it's a pure day rate, we are covered with a contract, and we are not responsible for the supply chains, the importation and everything else; if there are delays, they are not for us, so there is no impact on the rest of the business. When you look at the revenue in 13 and 14, as you know, it relates to the POC and where we will be on the POC side in the contract. If I had to estimate today that we have, it's about 300 million revenue in 13, and then 200 in 14, roughly, the risk profile of the project being more in 13 than 14, because that's where the core of the operation will be.

Goren Anderson – Platou Markets

Okay, thank you.

Operator

Thank you. Your next question comes from the line of Anne Ulriksen; please ask your question.

Anne Ulriksen - Nordea

Yes, hi, my questions were just answered, thanks.

Jean Cahuzac – CEO Subsea 7 SA

Can we go to the next question?

Operator

Certainly; your next question comes from the line of Ryan Kauppila; please ask your question.

Ryan Kauppila – Citi Group

Yes, good morning. Jean, when you look at the Brazil factors specifically, you know, be it the problems with administration or the problems with the supply chain, over the life of Guar-Lula, would you say these factors have worsened, stayed the same; you know, what would you judge as the progress on some of these, quote, Brazil factors, overall?

Jean Cahuzac – CEO Subsea 7 SA

I think the environment has not really changed, and it's something we've been aware since we started the project. I think what we are seeing today is that all these factors combined with the delays on the supply chain, and the fact that we are doing the installation in winter rather than summer, so the environment has not drastically changed over the last year, I would say, it's the timing of the project which has changed, and therefore the impact is higher, because it's more difficult to manage, and that's what we have included in our best estimates for the cost to complete the project. We have done this update.

Kristian Siem – Chairman of the Board Subsea 7 SA

Maybe it is helpful for you to get a little bit more information about this winter and summer difference in Brazil, because I was surprised to learn that the winter is as severe as it is, having experience there for 20 years. What we have found in this particular location where we're installing these buoys, is that the currents and the wind are either coming from a different direction, perhaps John could say something about that.

John Evans – COO Subsea 7 SA

Yes, you know, just geographically, Guar-Lula in the Santos Basin, most of the work that we've done in the previous years have been in the Campos Basin very far out to sea, and we get cross seas there, so we get two different sea directions building up and as Kristian says, the challenge we have here is finding sufficient weather windows to do the activities that we need to do in the winter; each activity we need, we need a certain period of time where we have a clear run of the weather. The weather does build up very quickly, and it's very ferocious, as we've seen out there, as Jean mentioned in his note, we have had equipment damage on

the Polaris during the first couple of months there. So, it's really around being cautious and being sure about the windows that we can create and get in good data for that, but secondly, we've also taken a more cautious view of what we can achieve inside the windows that we get, hence the extension in the offshore schedule we've discussed today. Operator, I think we've got time for one more question.

Operator

Thank you; your last question comes from the line of Julian Lauren. Please ask your question.

Julian Lauren

Good morning. In your comments you have mentioned that there is a specific issue in Brazil, but there is also a global issue regarding the suppliers and how they are tight and to some extent how we cannot rely always on them. So, are you reinforcing your selection of supplier and trying to mitigate this risk, or is there any risk for all the contract and it cannot change?

Jean Cahuzac – CEO Subsea 7 SA

Thanks for your question, I mean, you know what we said in previous call, and we've been saying that now for quite a while, is the challenge of the industry are mainly on supply chain, on lack of resources of engineering and project management. That's a factor that we have to live in this environment, and I think we are managing it well, as shown by our results on other projects outside of Guar-Lula. It's a challenge, and I think the company, because of the size and the organisation etc, is well positioned to manage this challenge, and that's why my comments that outside of Guar-Lula, on the 95% of our backlog, I'm comfortable that we will continue to deliver as we mentioned it in the past.

Julian Lauren

Thank you.

Kristian Siem – Chairman of the Board Subsea 7 SA

The very nature of this, all of our projects worldwide, is of course that we have things happening every day, and that's where the project management becomes so important, and that's why we always have contingencies in these projects. When it comes to the assessment of Guar-Lula, based on the situation as we see it today, we have anticipated what costs we will now have going forward, and we are also taking provision, there is a contingency reserve also in that figure. So, the Guar-Lula project, and the numbers we have given you today, are exactly the situation as we see it now, as we normally see it with any other projects.

Jean Cahuzac – CEO Subsea 7 SA

Thank you and I would like to conclude. So, thank you for participating to this call in very short notice, and I just want to repeat what we said at the beginning. We are committed to communicate in a transparent way, and we'll keep you aware of any change on Guar-Lula if it has a material effect, positive or negative. The number that we have announced today reflects a prudent approach, and reflects where we are to our best knowledge. So, thanks again; I'm looking forward to talking to you at the Q2 earning call. Thank you.

Operator

Thank you. That does conclude the conference for today. Thank you for participating. You may now all disconnect. Speakers, please stay on the line.