Subsea 7 S.A. Third Quarter 2011 Results

Wednesday November 2, 2011

Speakers

- Karen Menzel – Investor Relations Director
- Jean Cahuzac – Chief Executive Officer
- Simon Crowe – Chief Financial Officer

Operator

Thank you for standing by and welcome to the Subsea 7 SA Third Quarter 2011 results conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by question and answer session, at which time, if you wish to ask a question, you will need to press * and 1 on your telephone keypad. I must advise you that the call is being recorded today, the Wednesday the 2nd of November 2011. And I would now like to turn the conference over to your first speaker today, Ms. Karen Menzel, please go ahead, madam.

Karen Menzel

Thank you and good afternoon. Joining us on the line today are Jean Cahuzac, our Chief Executive Officer, and Simon Crowe, our Chief Financial Officer. Today's results are for the Third Quarter ending September 30, 2011. The comparative, unless otherwise stated, is for the Third Quarter 2010, ended August 31, 2010. These results can be found on our website, along with the presentation slides that we will be using during this call.

Before, may we… before we start the presentation, may I remind you that certain segments made in the course of this call which express the company's intentions, beliefs and expectations, are forward looking statements within the meaning of the US Federal Securities laws. Actual future results and trends could differ materially from those which are in such statements due to various factors. Details of these can be obtained from time to time in the company's SEC filings, including the company's annual report on Form-20F. Copies of these filings may be obtained either from our website or from the SEC. May I also draw your attention to the more detailed disclosure on forward looking statements that appear in today's announcement.

Today's call will run for one hour, and with that I hand over to Jean.

Jean Cahuzac - *Subsea 7 S.A. - Chief Executive Officer*

Thank you, Karen, and good afternoon to everybody. A few comments on the quarter before Simon runs through our financials, and I will, as usual, make some observations on the market before we turn to your questions.

The good quarter results are in line with our expectations. In the North Sea, we have seen higher levels of activity, although, as expected, financial results have been impacted by the effects of projects awarded in 2009 and 2010 with lower margins. Vessel utilisation has improved, in part due to the usual seasonality, but also because clients remain keen to progress with their SURF developments and Life-of-Field activities. We have seen no slowdown of their plans to proceed with identified projects.

We had three operational incidents during the quarter. Although none of those incidents have resulted in material revision, we have seen some delays related to our expected schedules on a few projects. This means that we have seen slower revenue recognition, and that this work gets pushed to the right into Q4. Poor weather in the North Sea has also affected the progress on several projects, shifting work into Q4 and in some cases, early 2012.

In West Africa, we have seen another strong performance, with a number of large projects being in their offshore phase. Activity in this territory has been high, with good progress being achieved on a number of major projects, including Oso Re, Block 31, and EGP3B. PazFlor, Block 18 GEL and Angola LNG have all completed most of their operation during the quarter. On PazFlor, through good cooperation between the project teams, the first oil has been achieved ahead of schedule to the satisfaction of our client, Total. We expect that all remaining commercial discussion on this project will be finalised in Q4.

CLOV remains in early phases, with activity mainly focused on procurement and design engineering. Our project teams have continued to perform well, and this performance has been achieved despite the *Acergy Polaris* and *Antares* being in plan modification for a significant part of the quarter. I would like to mention that *Acergy Polaris* has recently commenced transit to Brazil.

Project activity in Asia remained low, as expected, although the Woodside project completed during the quarter. We remained very pleased with the performance of our joint venture with SapuraAcergy, which completed its summer operations on Gumusut.

I'm also pleased with our operational performance in Brazil, our vessels on long-term charter achieved full utilisation, and work was ongoing at the spoolbase on the P55 Project during the quarter. We remain on track to complete offshore pipelay operations later this year.

And all of our joint ventures delivered strong operational performance.

A few words on our backlog. Good order intake has resulted in backlog of $7.9 billion at the end of the quarter, a record value. We have received a LOI for a new build PLSV in Brazil, and believe that the final contract can be finalised in very near future. This potential contract is obviously not included in today's backlog.

Integration continues to progress well. Our approach continues to deliver results, and I'm comfortable that we will achieve the target cost savings, and all the synergies that we have announced. And with that, I shall hand it to Simon to run through the financials in more detail.

Simon Crowe - *Subsea 7 S.A. - Chief Financial Officer*

Thank you, Jean. Good afternoon to you all. We have, today, published the results for the Third Quarter 2011 for Subsea 7 SA. As a result of the combination, which was completed on January 7, 2011, these results include the ten month period from December 1 2010 to September 30 2011, for Subsea 7 S.A., the former Acergy business, and the results of Subsea 7 Inc, following the date of combination.

The quarter saw the continuation of the integration work, bringing the two companies together. We've now made substantial progress, and remain on track with no surprises. I will comment on the P&L for Q3 '11 bridged between this quarter and the same quarter last year, noting that it's difficult to compare like with like, talk a little about the results in the territories, and make some observations about the cashflow and balance sheet. Finally, I will give you some commentary on how you might think about the Company's financials going forward.

Turning now to slide number 4 and the income statement highlights, overall I'm very pleased with the quarter. Revenue from continuing operations was over $1.4 billion, with net operating income at approximately $200 million. We delivered an EBITDA of $279 million, with a margin of 19.5%, which is the result of a solid quarterly performance. We also achieved a vessel utilisation of 83% for major vessels during the quarter, which compares favourably to this time last year.

Turning now to slide number 5 and the operational performance, revenue in the North Sea, Mediterranean and Canada for the third quarter was $637 million, reflecting additional activity from the combination, and higher activities levels on a number of SURF projects. Life of Field operations under multiple frame agreements also performed well during the quarter. Net operating income was $44 million, primarily due to increased activity, and a higher number of vessel days, partially offset by the impact of low margins on some projects awarded in 2009 and 2010, and higher tendering expenses. Operational delays on some projects in the North Sea during the quarter, arising from problems on vessels, and adverse weather, have also impacted, resulting in lower than scheduled progress and additional cost.

Revenue for Africa and Gulf of Mexico for the third quarter was $599 million, reflecting additional activity from the combination, and good progress on a number of major SURF and Conventional projects. Despite lower utilisation of *Acergy Polaris* and *Antares*, due to planned drydocks and work on the J-Lay tower. Financial completion of Blocks 17, 18 occurred during the quarter, and Sonamet delivered another good contribution. Net operating income was $109 million.

Revenue in AsiaPac, for the third quarter, was $38 million, reflecting good offshore activity on the Woodside project, which completed operations during the quarter. Net operating income, at $13 million, was impacted by higher tendering costs, partially offset by the completion of the Woodside project, and a good contribution from the SapuraAcergy joint venture. Net operating income in Q3 '10 benefited from higher levels of project closeouts.

Revenue for the third quarter for Brazil was $155 million, reflecting the seven vessels on long term service agreements with Petrobras, which achieved good utilisation during the period. Progress on the P55 Project and the i-Tech Project for Petrobras continued as planned. Net operating income was $13 million.

Revenue in the corporate segments for the third quarter was $3 million. Net operating income was $21 million, reflecting strong contributions from Seaway Heavy Lifting and NKT Flexibles, offset by corporate admin expenses. The majority of the integration costs of the period are reflected in this segment. The additional depreciation and amortisation arising following the fair evaluation of assets and liabilities acquired in the combination with Subsea 7 Inc is also shown in this segment.

Turning now to the income statement overview in slide number 6. Admin expenses were $95 million for the quarter, with $15 million of integration costs included in this total. These expenses also reflect significant tendering costs during the period, reflecting the high volume of new opportunities, particularly in AFGoM and the North Sea. During the quarter we saw a strong contribution from the JVs, reflecting a good contribution from Seaway Heavy Lifting and NKT Flexibles, and a good contribution from SapuraAcergy. The contribution from NKT Flexibles included a gain arising from the escalation factor within the first Brazilian frame agreement, signed in 2008. This was an impact of approximately $12 million for the quarter.

Investment income was approximately $5 million, and reflected interest received on our cash balances during the quarter. FX movements resulted in a favourable contribution of $46 million, with the US dollar fluctuating against all of our major currencies, especially the Brazilian real. Most of the movement this quarter is non-cash, and is a function of the accounting treatment of certain large, long term, multi-currency contracts. Finance costs were $9 million, which was driven by the interest on the convertible bonds, and interest expenses on our loan and guarantee facilities.

The tax charge, as usual, reflects the current geographical portfolio mix and various adjustments. We have benefited from a few one-off favourable tax impacts this quarter, which has resulted in an effective tax rate for the quarter of 29%.

Looking at backlog, we have today presented a backlog of $7.9 billion. This reflects good order flow, both announced and unannounced, offset by FX movements on our multi-currency long term contracts of approximately $250 million. Diluted EPS was 45 cents for the quarter, based on a fully diluted share count of approximately 379 million shares.

Turning now to the cash flow and balance sheet on slide 7. We generated $280 million of cash from our operating activities during the ten months of the year, and we remain focused and collecting and managing our working capital efficiently. Net cash flows used in investing activities were approximately $44 million, which reflected the ongoing capex costs during this period relating to the *Borealis* and *Antares*. This also included the cash acquired as a result of the combination, and included the purchases of *Seven Havila*, which has a corresponding financing inflow during the ten months in cash flows from financing.

During July we repurchased 267,000 shares for a total consideration of $6.8 million, which completed the buyback programme of approximately 2.5 million shares, for a total consideration of approximately $60 million. The partial repayment of our convertible bond and share buyback programme are also shown in the financing flows.

Turning now to the balance sheet, we've set out the provisional fair value calculations in Note 10 of today's announcement. These have small adjustments from those published at the half year. We've made good progress with the PPA work, and we'll finalise these calculations by the end of the year. Our provisional calculation of goodwill remains at $2.4 billion, and that will sit on the balance sheet and be tested for impairment at each year end. Our closing cash balance was $641 million.

Turning now to slide number 8, I'd like to give you some commentary on how you might think about the remainder of this year, and the business going forward. Year to date we've delivered $4 billion of revenue, and expect to execute around $1.3 billion of backlog in the final quarter of this fiscal year. For fiscal year 2011 we expect to deliver an adjusted EBITDA of around $1 billion. Now looking forward to 2012, at this point in the year, I would expect 2012 to be a year of progress, however the consensus adjusted EBITDA looks to be on the high side.

I would like to remind you about a number of other elements of the business going forward. For integration costs, we've spent $41 million so far this fiscal year, and we anticipate approximately $20 million for the final quarter of 2011. This reflects the ramp-up in activity as we prepare to go live with some key systems on January 1, 2012. In 2012 we could expect a further $30 million of costs to complete the integration work.

Cash capex to date is approximately $535 million, which includes approximately $190 million for the Havila. We expect to spend a further $150 to $200 million for the remainder of this fiscal year, which includes $60 million for the Borealis. For 2012 we'll have a base spend on capacity and maintenance and drydock of about $150 million. We add to that the remainder of the Borealis, of approximately $170 million, and as Jean has mentioned, we expect to start building a new PLSV for Petrobras, and this may add a further $150 million in 2012. There are a number of other smaller projects and investments that we're planning to make which could total approximately $130 million, so I would start with a base case cash capex for 2012 of approximately $600 million.

We expect the effective tax rate for full year 11 to be slightly below the 35% mark, which reflects some of the benefits seen in the third quarter. For 2012, at this stage, I'd use a similar number.

Looking at the joint venture contributions for the full year, we expect the contribution in the fourth quarter to be the lowest quarter of the year, as both SHL vessels have completed their main planned campaigns, SapuraAcergy has completed its scheduled offshore operations at Gumusut this year, and the gain arising from the Petrobras price escalation for NKTF will not be repeated in the fourth quarter. 2012 may be slightly lower than 2011 once the gain from NKTF is excluded, and it's still uncertain when Sonamet will deconsolidate.

Finally, the integration work remains on track. The business has a very solid base, and is well capitalised. We are ready to take advantage of the significant number of opportunities in the coming years that are now presenting themselves. And with that, I'll hand back to Jean.

Jean Cahuzac - *Subsea 7 S.A. - Chief Executive Officer*

Thank you, Simon. So turning to the markets and what is means for Subsea 7. We remain very positive on our view that further major projects in most part of the world will come to market award in the next six to 12 months, and despite recent economic and political uncertainties, we have seen no negative changes to client's fundamental behaviour, reinforcing our view that the outlook for our industry remains very positive. High levels of tendering activity around the world continue to underpin strong order book momentum, fuelled on the conventional markets in west Africa. We have been very pleased with the award of the Ofon contract. This award shows that our strong local presence, fabrication yards, and differentiated assets continue to position us very well to play a leading role in this conventional market in West Africa.

In the SURF market, we continue to see growth opportunities in all of our major markets, albeit at different paces. In the North Sea, levels of tendering continues to translate into awards, and higher levels of activity, with improved pricing for these newly awarded projects, which will be offshore in 2012 and beyond.

In West Africa, while delays in timing of awards remain possible due to the political environment, we expect a number of major SURF contracts to come to market award later this year, or early 2012. Offshore operations for these projects will take post-2012.

In the Gulf of Mexico, we see an increase in activity for subsea projects, with contract awards in 2012, but execution late '13 and '14. However, this market remains competitive and we would most likely need to see a noticeable pick-up in activity before that really changes.

In Brazil, we see continued opportunity in the traditional deepwater and pre-salt developments. Petrobras has ambitious plans, and are keen to progress the pace. Although we are seeing some delays arising from the tightening of the supply chain in the country, as well as additional challenges with the administrative environment.

In Asia Pacific, where the market remains very competitive, we expect further gas-driven SURF contracts offshore Australia to come to market award in 2012 and '13, with associated offshore activity expected in '13 and beyond.

So turning to our expectation for 2012. I expect that Subsea 7 will continue to position itself successfully next year for further profitable growth, while continuing to deliver good results. West Africa is expected to transition through a period of lower offshore activity on those projects awarded over the past 18 months. This territory will remain very busy, with our resources focused mainly on engineering, project management and procurement. There will be less offshore execution in 2012, and as a consequence, less contribution from this area. The offshore phase of CLOV is expected to commence in Q4 using *Seven Borealis.*

In the North Sea, we expect activity to continue to improve, and with it, high utilisation and margin improvement year on year. In Brazil, in 2012 we expect to see a significant increase in drydocks, with four pipelay vessel to be in shipyards during the year. To provide some context on this, in 2011 we saw one vessel in planned drydock for over 30 days, versus four vessels for over 180 days in 2012. Guara Lula is expected to commence offshore operations late 2012, but as you know, most of these operations will be executed in 2013.

Acergy Polaris is expected, next year, to operate both in Brazil, initially on the GSNC Project, and in Africa, during the year, but it will have low utilisation on projects due to two months planned drydock ,and more time spent transiting between the two continents.

And post quarter end, our joint venture, NKT Flexibles, has announced its agreement with LLX to locate its new Brazilian factory in Superporto do Acu, and the project is on schedule.

So in summary, we have delivered a good quarter in line with our expectation, with good results and order flow.

The fundamentals of our industry remain strong, and despite continued economic uncertainty, I look forward with confidence to the future. We continue to see opportunity in all of our markets, although activity is picking up at different pace in different geographical areas.

We have nearly $8 billion of backlog, excluding the PLSV LOI, with a good split between EPIC and day rate contracts. We remain focused on building quality backlog, as we have long said, maintaining a disciplined approach to building the right backlog from both risk and pricing perspective, continues to be one of our main priorities.

In this growing market, the industry's main challenge will be the availability of qualified and experienced personnel. Post-combination, our financial strengths, our large fleet of high specification vessels, and our engineering and project management resources position Subsea 7 very well for future growth.

Before I answer your questions, let me comment on the status of our (Parana base in Brazil, as it has recently raised some questions. Subsea 7 has a long-term strategy for Brazil. This strategy includes investment in a logistic and spoolbase to support operation for the pre-salt field developments. That's why the Company acquired a large area of land in the Parana State in 2007. Our plan was to build a spoolbase there for the execution of Guara Lula and other future projects. Although the preliminary licence was obtained in Q4 2010, for reasons which are not very clear to us, the authorities have not yet issued all the necessary permits that we need to start the construction of the base. As we cannot wait any longer for these permits without potentially impacting the schedule for the Guara Lula development, we have no alternative but to proceed with another option that we have identified to execute the project.

This will introduce some additional project costs, mainly related to vessel transit time and potentially lower efficiencies arising from the new site configuration, but it is still satisfactory solution for executing this project, and allow us to meet Petrobras' schedule. And with that, I would like to turn it to your questions.

Questions and Answers

Operator

Thank you. We will now begin the question and answer session. If you wish to ask a question, please press * and 1 on your telephone keypad and wait for your name to be announced. If you wish to cancel the request, please press the # key.

Your first question comes from the line of Fiona Maclean of Merrill Lynch.. Please ask your question.

Fiona Maclean – *Merrill Lynch*

Thank you, yes. It's Fiona Maclean at Merrill Lynch. I have a couple of questions. I was hoping, Jean, you could clarify the amount of additional cost this project is going to cost you in Brazil, and then secondly, staying in Brazil, could you give us a bit more detail on the topside tension of the vessel that you've been… or you've won on the PLSV. And lastly, a bit of housekeeping with Simon, I just want to get an understanding of how much depreciation we should be looking at, or D&A we should be looking at for 2012. Thank you.

Jean Cahuzac

All right, thanks, thanks for your question. Regarding Guara Lula Project first, we are, as you know, we don't communicate results or figures on individual projects. What is important for this project is that the solution that we have, the alternative to the Parana base, will allow us to execute the project within the schedule that we committed to Petrobras, and we're talking about additional vessel time and some spoolbased efficiency. But, overall we have a solution for Guara Lula, which is the most important thing.

Regarding the PLSV in Brazil, you know, we, we never consider that the contract is signed before it's signed, and although we have a LOI and we are optimistic that this project will materialise, the contract has not been signed. We're talking about the 550 tonne PLSV internationally built against a long term contract. I mentioned before in my comments that what is key for me is to sign the right contract at the right terms and conditions, and I'm pleased with this contract. it meets our financial objectives with a good long term contract.

Simon, do you want to..

Simon Crowe

Yes, Fiona, good afternoon. As you know, the D&A charge this year is about $350 million, and that's obviously built up with the legacy companies combine, the PPA, December stub month and about $25 million from bits of FX and drydock and additions to the fleet. Into next year we've got a lot of drydocks, we've got the *Borealis* coming on stream, so I'd think more like $375 to $400 kind of range, we're just firming at up at the moment, is where you should be modelling.

Fiona Maclean – *Merrill Lynch*

Okay, that's it from me, thank you.

Simon Crowe

Thank you.

Operator

Thank you. Your next question today comes from the line of Ian MacPherson of Simmons. Please ask your question.

Ian MacPherson – *Simmons*

Good afternoon, thanks. Simon, you mentioned consensus looks a little rich for next year. I'm looking at an EBITDA consensus Bloomberg that's $1,260. I know that you purposefully did not provide anything more specific than what you did say, but you opened the box so I have to go there. If we went, if you saw a range of $1150 to $1.2 billion, would that sit better with you for next year?

Jean Cahuzac

You know, I'm not going to give you a figure for 2012, as you probably expect. You know, at this time of the year, we're in early November. It's too early to have the fullest view on next year. And in this business, there can be fluctuations on the timing of project execution, evolution of the market. We commented on the drydock that we have in Brazil. What we have said, I just want to repeat it. It's in West Africa there will be less offshore execution in 2011, and as a consequence less contribution. On the other hand, we see North Sea margins continue to improve, with high utilisation and margin improvement year on year. That's the reason why we are making these comments, that we see 2012 will be a year of progress, and we say that the market expectations for EBITDA seems to be a bit on the high side.

That's where we are in November. We will understand a bit better the actual reality of the execution of these projects a bit later on in the year, or beginning of next year.

Ian MacPherson – *Simmons*

Okay. Jean, also, I wonder if I could ask you for a little bit of colour with regard to your expectations for order flow potential next year. Again, not in terms of specifics, but, you know, Technip offered the view on their call that they certainly see backlog expansion in regards for next year, which is not controversial as a view right now. What might you say about the opportunities there for new awards for 2012 at this stage?

Jean Cahuzac

I think they are, just to confirm, that's what we have been saying now for two quarters. Clearly, this market is improving. There is no change. When… and I have, I am comfortable or confident that there will be a fair amount of contracts awarded to the industry in the next six months. I would say around the world. There are, to give just a few examples, if you look at Asia, you have Ichthys, a very large project in Australia probably be awarded early '12. You've got Wheatstone, which, for Chevron, which would be available, awarded, sorry, before the end of this year or early '12. You have Siakap North-Petai for Murphy in Malaysia. In Africa I would say all the projects that you heard about for me are on track. Some question marks about the timing on Egina but beside that, in the number of projects in Angola with Lianzi, with the Congo River crossing, with work on BP GES and EPC 4 etc, all that is as expected.

In Brazil, additional work in the traditional deepwater with the award of the contract on the PLSVs. But also more work to come sub-salt. These projects are complex, so the exact timing of project awards, when will the industry be ready to answer to the tender of Petrobras is still being reviewed, but it will be in '12. And then in the North Sea, there are number of projects both in the UK and in Norway which are in the $100 to $300 million range. So it's… I cannot give you an exact detail on the timing, but when I say six to 12 months, I think it's probably a good, a good expectation.

When you look at our costs, together with this market improving, we have an increasing number of costs of the tenders, which are associated with that. And I would say the last comment I want to make on this is while obviously I'm quite positive when I see our backlog increasing, it has to be at the right terms and conditions, so the timing and the projects that we are targeting may vary depending upon the geographical area of the world and how we see the margins in the different part of the world.

Ian MacPherson – *Simmons*

Thanks for that comment, Jean.

Operator

Thank you, your next question comes from the line of Goran Andreassen of Platou Markets. Please ask your question.

Goran Andreassen – *Platou Markets*

Yes, hi. Yes, just regarding your expectations for West Africa next year, you're being a bit cautious there based on less projects in offshore execution, but then your comments on the North Sea seems to somewhat balance out, you know, the impact on margins there. But do you think you can get, with the high activity you see in the North Sea, and increased pricing, that you can get margins in the North Sea back to 2008 levels already in, let's say, midway '12, or is that more of a '13 event?

And my second question is, regarding the North Sea as well, Technip has already seen improved vessel utilisation of its light construction vessels and diver support vessels, which is obviously important for overall utilisation. Do you see the same thing occurring regards to your fleet? Thank you.

Jean Cahuzac

Yes. regarding the margins in the North Sea and in Africa, margins are improving on a year to year basis in the North Sea. Going back to the margins that we had when the market was very good in the past, I'm not going to comment specifically on margin values, but it's going in the right direction. When you look at the balance between Africa and the North Sea, while the North Sea is going up, Africa, as we said, will be in a transition year, and of course , that has an impact on the overall contribution.

When we talk about utilisation, I heard what Technip had said, and I would say I share their view on the market. There is a bit of a, maybe a small difference between Technip and us on some of the vessels for the North Sea, is that Technip is, I think it's close, said that they were close to full utilisation. We are not, we don't have full utilisation, full commitment. In an improving market, I mean, I see that as a positive factor.

Operator

Thank you. Your next question comes from the line of Pal Dahl of First Securities. Please ask your question.

Pal Dahl – *First Securities*

Hi, thank you. Just following a little up on the outlook for next year. How should we think about the opportunity you have to get more backlog on a couple of vessels that have some open time, I think, *Polaris* and *Antares*. You have backlog for the first half of '12, but limited backlog thereafter, and I think you also have some available capacity on the *Pacific* & *Oceans*. And could you also update us on the Block 31 project.

Jean Cahuzac

Starting with your last question, the Block 31 Project is going on very well, and I think to the satisfaction of our customer BP and ourselves, and I think we have a great relationship with our customer there.

Regarding the utilisation on the vessels, as we said, in Africa, there are more limited opportunity to have offshore operations, because of the timing of the projects, it's not a question that the market is going down, or it sounds like it, the market is going in the right direction in Africa too, it's a timing issue. And therefore when we look at the scheduling of the *Polaris*, for instance, there are not, there are not a lot of opportunities in Africa, that's why we moved the vessel to Brazil, and my previous comment was related to two things, also.

The *Polaris* is going to be in drydock from, I mean for about two months, a bit more than two months, and then it's going to be in transit between Africa and Brazil. And when you are in transit between the two continents like that, you don't have the added value associated with the execution of a project either, and therefore my comment on West Africa for next year, with less offshore execution, and as a consequence, less contribution for the overall result.

Pal Dahl – *First Securities*

Of course. Just trying to better understand how the North Sea market is developing. I think so far this year you have shown a phenomenal order intake, and I guess the order intake we have seen so far this year is well above the peak the two combined companies had previously seen.

Jean Cahuzac

Yes.

Pal Dahl – *First Securities*

Is it fair to assume that earnings in US dollars will match previous highs next year, whereas to get the real margin, or to reach new margin peaks will have to wait for 2013 or should we expect… how should we think about the North Sea?

Jean Cahuzac

Well, we'll see, we see the North Sea improving in '12 compared with '11, because of the phase out of the projects which were with lower margin and which were acquired in 2009, and 2010. And then, you know, starting now, I would say, you have these new projects with better margin we start to roll out, in the North Sea, while the other ones are phasing out. So there is something of a mixed bag in the North Sea. But I do expect that the North Sea result next year will be materially better than what you have experienced in, that we have experienced in 2011.

Pal Dahl – *First Securities*

Thank you, and a final question, if I may. The PLSV, how shall we think about the capex and the contract length and the potential EBITDA from such a contract?

Jean Cahuzac

Yes, we are not commenting on specific projects in terms of financial return of the project, but the capex for the PLSV is c$350 million depending upon the exchange rate. It's a vessel which is built outside of Brazil, therefore with a limited exposure to shipyard performance. It's a five year firm contract, and when we look at investing capex, what is important for us on this long term contract is to make sure that the financial return meets our financial expectation or financial return expectation, work, etc. So it's a good contract.

Simon Crowe

Yes, it's a good contract.

Pal Dahl – *First Securities*

Thank you very much.

Operator

Thank you. Your next question comes from the line of Mick Pickup, of Barclays Capital. Please ask your question.

Mick Pickup – *Barclays Capital*

Good afternoon everyone. A couple of things, if I may. Firstly Simon, you did say EBITDA's touch on the high side for next year. Obviously we're on a pretty aggressive ramp-up of the D&A line, so can you just tell me what D&A is for next year, because obviously the hit at EBIT, if you think EBITDA's high, EBIT is probably significantly high.

Secondly, just on Brazil, obviously it's encouraging that you think there's alternatives for Guara Lula, but obviously the net impact of this is there's probably an opportunity cost, and if there's more bidding out there, does this restrict your ability to bid on any of the upcoming work in the short term, until you have a secondary facility in place?

And thirdly, and please do shoot me and say Mick you know better than that, if I look at AFGoM, you'd done 16% margins in Q1, 25% in Q2, 18% in Q3, and quarter by quarter by quarter comparison doesn't change, but you did say in Q2 that there were some significant milestones. If I look at that, to my mind, it says you to 16% to 18% in AFGoM when things are going well under the projects you're executing today. And next year, you're not going to have as much activity, and the projects are probably not as good as today's projects. So when I'm thinking of that AFGoM margin in '12, should I be using 16% as a base case and then taking a big haircut from there?

Simon Crowe

Let me just hit the D&A one, Mick. I think I said to Fiona a little bit earlier, we're about $350 million for this year, we're looking at between $375 -$400 million for next year when the *Borealis* has come on, when we've got all the impact of the, those drydocks that we're doing, we're doing next year, and some PPA work that we're doing. So that's kind of, that's very rough, rough ballpark. Jean.

Jean Cahuzac

Yes, regarding the Guara Lula Project, just to clarify your point, yes, we have an option, an alternative option to execute this project; it's our commitment to Petrobras. I also said there would be some additional costs on this particular project, and I explained the transition of the vessel and some new base facility. When we talk about the new Guara Lula Project, we have the means to bid with new projects. We have other options, not only in terms of spoolbase, but also different vessels that we can assign to the project with different technologies. And we are all, in the industry, facing the same challenges in Brazil in terms of the base, the different bases, etc.

So I think we are on par, and we will include this cost in the, in the new bids, to be able to make a proposal to Petrobras which makes sense for them and for us. So we are, we are positioned to actually bit this job.

Regarding the AFGoM margin. You know, I mean, AFGoM is a good business, and there can be some situation of transition one to another. I'm not going to comment on the EBITDA margins specifically for territory and for 2012, but I'm very positive with AFGoM because of our positioning there, and our differentiation through local content. It's one of the areas of the world where I'm comfortable with in medium, short term, medium and long term.

Mick Pickup – *Barclays Capital*

Okay, thank you very much then. Congratulations Simon on another good over the line this quarter.

Simon Crowe

Thank you, Mick.

Operator

Thank you. Your next question comes from the line of Alex Marie of Exane BNP Paribas. Please ask your question.

Alex Marie – *Exane BNP Paribas*

Good afternoon, everyone. You had a few incidents, I think, this quarter, with *Seven Atlantic* as well as *Discovery*. If we strip that out, could you say roughly how much your EBIT or EBITDA would have been in the quarter?

And secondly, for the JVs and associates profit, you mentioned there is a gain for NKTF, could you say how much this is? Thanks.

Jean Cahuzac

Yes, to answer your question, we are not going to this, the granularity in the numbers that we pass to outside, outside the Company, but I want to put things in perspective about this incident. You know, without going too much in detail, the *Atlantic* touched a platform, and was basically out of service for a couple of weeks. You know, the incident didn't have a material impact as such, not a question of that, but we wanted to make sure, when we have incidents like that, that we do understand what happened, that we can resume operations in a safe and efficient way. So we actually went onshore and did what had to be done.

The *Discovery*, it's a software issue, on one of our suppliers software, which has been installed on 25 vessels in the industry. Again, we touched the platform, we did the same thing. Very cautious, went back, stopped the operation, looked at what's happening. So the third incident is a design problem on the bearing on the crane of the *Skandi Acergy* which failed. Unfortunate, but we had also to stop for a couple of weeks.

The impact of these incidents, when you look at each of them from an individual basis, they are not material as one incident. They don't question the confidence that I have on our ability to execute operations and our projects in an efficient manner. Again, I'm very pleased with saying that the merger had no impact on our overall efficiency of projects, but what happened with this is that you actually pushed some of the projects to the right, in addition to the non-recovery of the day rate of the vessel, and therefore the contributions, the progressed contribution that you have on some projects can be passed from one quarter to another.

And then I would say there was a bit lf lack of luck also, because the same time as we had some of these incidents, we had some unusually bad weather in September, that I think the whole industry experienced, which delayed further the start-up of operations again, for our customers. So that's, in a nutshell, that's what happened.

Regarding the NTKF, we have mentioned that in Q3 we had the $12 million gain.

Simon Crowe

That's correct.

Jean Cahuzac

Addition upside on the contribution from NKTF. That relates to some adjustment of the price escalation on the first frame agreement which was signed in 2008 by Petrobras in Brazil. So it will not repeat in Q4 or in 2012. It was a good catch-up.

Alex Marie – *Exane BNP Paribas*

Okay, and just a follow-up question, please, on the *Seven Borealis* depreciation. Will the depreciation kick-off when the vessel is delivered, or when you start operations with the vessel?

Simon Crowe

Delivery. Delivery, which is scheduled for the middle of next year.

Alex Marie – *Exane BNP Paribas*

Okay, thanks.

Operator

Thank you. Your next question today comes from the line of Ryan Kaupilla of Citigroup. Please ask your question.

Ryan Kaupilla – *Citigroup*

Yes, good afternoon. Back to Brazil, if I may. Was just wondering, you know, on the permit for the spoolbase, what sort of feedback, if any, you're getting as to why it's delayed? And two, in your presentation, you sort of referred generally to this sort of issue as administrative challenges. Just wondering if that is something that you've seen an up-tick in over the past, over the course of the past year or two, and if you think that this is a structural issue that's increased going forward?

Jean Cahuzac

Yes, the first thing, on the licence. We, started the licence application several years ago. We bought the land in 2007, and we were making very good progress on this licence, to the point that we had temporary licence awarded in Q4 2010, and some verbal reassurance from the authorities that the final licence would be granted some time in the middle of 2011. This licence application has been challenged by local organisations, and they are challenging in court this licence. There is no negative legal consequences for Subsea 7, there will be no fine or nothing associated with that, but it delayed the whole process.

When I was referring about administrative difficulties, I think it's, it hasn't changed, compared with the last couple of years. What has changed is that there is a big industrial expansion in Brazil, and I think it's probably fair to say that the administration is, maybe have some challenges to meet some of the deadlines to actually do, issue some of the licences. We are not the only one, Petrobras themselves had some delays of licence on some of the fields, so it's something which is one of the challenges in Brazil. I think it's there to stay, in the coming years, until we come to a more, you know, a more efficient overall organisation. But there is no attempt to change, to change the approach in terms of local content or anything else. I think it's, things could be a bit better, let's say, that way. But I have to say that when you look at the expansion of Brazil and the level of activity that there is there, it may not be a complete surprise.

Ryan Kaupilla – *Citigroup*

Okay, thank you.

Operator

Thank you. Your next question today comes from the line of Phil Lindsay of HSBC. Please ask your question.

Phil Lindsay – *HSBC*

Good afternoon, guys. A couple of questions if I could, please. Firstly, just one on the integration process, you suggested that, you know, there's been no surprises there, and it's all on track, but yet, I see $30 million worth of integration costs is moving into 2012. You know, does that imply the integration is perhaps, sort of, slower than planned, and does that have any impact on the potential timing or quantum of, you know, on the delivery of your $100 million plus target?

And then, the second question, you know, you've guided that Africa's going to be down next year, but what can you say on the scope for contingency releases in 2012 from project close-outs in 2011? I know you've mentioned commercial discussions on PazFlor should conclude in the fourth quarter, which, you know, may provide a boost in the fourth quarter, but what can we expect based on your execution to date to come out in 2012? Thank you.

Jean Cahuzac

Yes, let me come first with the last question. We say that some of the financial commercial negotiation will be completed in this year, and the beginning of 2012. PazFlor will be complete this year and a lot of the contingency on PazFlor have been released because of the most of the operations being executed in Q2 and Q3, so the impact on PazFlor will be more limited in the future than it has been in the past. But it's been a great, a very good project.

When you talk about the release of the contingency in AFGoM, it's a timing, it's a question of first performing well on the project, and we are performing well on the project. The other thing is when are we in operations? In '11 we can have less projects in operation… in '12, sorry, we are going to have less vessels in operation, projects in offshore operation, in ‘12, and therefore, in terms of releasing contingency and seeing an impact on the bottom line, we are going to see less of that in ‘12 that we’ve seen in ‘11. That’s what we try to see.

Regarding the integration, integration costs, I think we’re taking a, I would like to define it as an aggressive and cautious approach on the integration, in the sense that it’s important to complete the integration as soon as possible, to see all the synergy going to the bottom line. It’s also important not to increase the risk profile of the Company because of the integration. And when I measure what we have achieved in 2011 from a risk profile, for the Company, I’m very pleased, because our winning rate, acquisition of new business, has been as good as ever, and in terms of project execution, you know, if I put aside the operational issues in the North Sea, which are not merger related, and I described what they were before, I think we have executed the projects, overall, in a good manner. Where are we on integration? We have completed fully onshore integration in terms of organisation, in terms of processes, in terms of alignment of compensation. We just have to do something in 2012 which is complete SAP, and by design, we say that we will not go for full SAP implementation before January 2012, because we didn’t want it to add on the workload of the whole organisation and therefore increase the risk profile. So there are costs associated with SAP, there are costs associated with back office organisation restructuring, and that’s why we’re going to spend some money in ‘12 that we haven’t spent in ‘11.

But the overall budget for integration that we evaluated at the merger time around $100 million is still an achievable target for ‘11 and ‘12, consolidated. So it’s working well, in a nutshell, I’m very pleased with the merger process.

Phil Lindsay – *HSBC*

Okay. And can you just, as a quick follow-up, can you just say whether you expect a net benefit on synergies in 2012, or more likely break even?

Jean Cahuzac

Well, we’ve already seen some synergy in terms of, you know, in terms of organisation overheads in, at corporate level etc in ‘11. We are going to see more of that in ‘12. And we are well on track to achieve our objective, which is a combination of cost saving and additional revenue of $100 million as from January 1 2013. We’re well on track to achieve this objective, and I still hope to do a bit better.

Phil Lindsay – *HSBC*

All right. Thanks very much.

Operator

Thank you. Your next question today comes from the line of Kristian Diesen of Pareto Securities. Please ask your question.

Kristian Diesen – *Pareto Securities*

Okay, good afternoon. Simon, could you please repeat your comments, initially here, on 2011. Was that $1 billion of EBITDA you were expecting?

Jean Cahuzac

I think we said that we will be in line with market expectation, which is around a billion.

Kristian Diesen – *Pareto Securities*

Which implies, like, $220, $230, of EBITDA in Q4, is that right to assume?

Jean Cahuzac

Well, I mean, it all depends on timing on projects. I mean, that's a bit of the difficulty of a quarter…

Simon Crowe

And a cut-off date.

Jean Cahuzac

Yes, a cut-off date on a quarter. It can go up or down by a couple of thousand million of dollars, depending upon…

Simon Crowe

The day you sit down with your client.

Jean Cahuzac

If you finalise on the 31st of December or the 2nd of January. So, you know, its hard to be that accurate …but broadly in line …

Kristian Diesen – *Pareto Securities*

Okay, okay. But I think it's… like the consensus is a bit closer to $1.1 than $1.

Jean Cahuzac

Well, I'm not going to comment on the exact value. We said it was, it would be broadly in line. I'm not going to comment on an exact value.

Kristian Diesen – *Pareto Securities*

Okay. Yes. And then, a separate question on, an announced, and sort of variation order potential going forward, you have $400 of unannounced in this quarter, this is sort of in the low end, I guess, of the historical average. Is there, or could you elaborate a little bit on the dynamics, on the variation orders given the portfolio mix you have now over the next year, year and a half. Would that be sort of lower or higher than the historical average?

Jean Cahuzac

I think the variation order depends on two things. It depends on the strength of the market, and the market is good, so the operators are not scrapping on scope, additional discretionary work on projects. It also depends on the scheduling of the project, and where we are. And what I said about Africa is probably going to apply also in variation orders, because as we are still at, on a number of projects, at engineering, project management side, procurement side, it's not at that time that variation orders usually come. And because they come a bit later in the, in the execution of a project, but also because you haven't reached the POC, the progress on the project (is limited), which is recognise contribution at the bottom line.

Kristian Diesen – *Pareto Securities*

Okay, so given less offshore activity in West Africa, for instance, you'd expect that the sort of run rate unannounced or variation order potential in the, in the, see it as short term, lower?

Jean Cahuzac

We aren't going to comment on exact numbers on that, no. And to come back, and to come back on 2011, again, We are not commenting on an exact value for Q4, it can fluctuate depending upon some of the timing of some contract awards, as you know, not awards, sorry. Contract completions, or commercial discussions, but I'm comfortable that it will be in line with market expectation, that's what we are saying.

Kristian Diesen – *Pareto Securities*

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Rob Pulleyn of Morgan Stanley. Please ask your question.

Rob Pulleyn – *Morgan Stanley*

Thanks very much. Just one remaining question. I see that Deep Panuke was removed from your progress slide. If you could give us the latest on the project there, and when you expect it to complete. And sorry, one extra as well. It was on the PLSV for Brazil. When do you expect the five year contract that you have the LOI for to begin? Thank you very much.

Jean Cahuzac

Yes, if we were to sign to contract, again, I want to insist that the contract is not signed, and therefore, you know, everything can happen.   I'm optimistic, but it's not signed. It would mean starting operation in the second part of 2014. The reason why you don't see Deep Panuke anymore is that the project has reached more than 95% execution, and therefore it's taken out of the list. It will be completed this year.

Rob Pulleyn – *Morgan Stanley*

Okay, thank you.

Karen Menzel

I think, looking at the time, we've got time for one final question please.

Operator

Thank you. Your next question comes from the line of Henry Tarr of Goldman Sachs. Please ask your question.

Henry Tarr – *Goldman Sachs*

Hi there. I've got a couple, just quickly, if I can. Firstly, you may not be able to comment, but in the North Sea I was just wondering if you could give us a sense of the materiality of the impact on the EBIT line of the poor weather and the operational incidents. Then secondly, just around… when you look at overall fleet utilisation in 2012 versus 2011, if you could give me a sense for that, that would be great. And then just very quickly on NKTF, clearly they have… an announcement has gone out that you're looking into the future for NKTF, I wonder what your thinking is on the future of NKTF and your involvement in that business. Thanks.

Jean Cahuzac

Okay. First, on the weather incident, I cannot give you a materiality of values on what it means. Just a clarification on weather, we are protected by our contracts on waiting on weather, on the projects going forward. Which means that when we are waiting on weather, we are paid for the vessel, we're paid for the contract costs, for the project costs, but we don't generate the added value of the project, if you see what I mean, and then we postpone the execution of the project, and therefore there is, in some cases, there is some delay in when the profits reach the bottom line.

So we are covered, but we're not covered for the upside, if you see what I mean on the weather. And then you have this rolling effect that when you're… you are getting late, nothing to do with your performance, but you are, you are getting late because of weather, then you're getting late for the next job, and therefore the next job is delayed, and that has a kind of a snowball effect.

Regarding utilisation 2012, The only thing I can say is the comment I made about utilisation on the fleet of Africa. I mentioned the *Polaris*, specifically, but I think in a nutshell what we could say is North Sea utilisation will remain very good, some seasonal effect maybe in Q1. Africa will be lower for the reasons I mentioned. Brazil, where we see high utilisation, it will be lower next year because of the drydock, and they are planned drydock, the 180 days that I mentioned, so overall, that's what I can say about utilisation.

And regarding NKT, I think both parent Companies, NKTH and Subsea 7 are quite confident in the future of this business, and the future of NKTF. What we said, what NKTF said, was that we had reached a great milestone with this frame agreement of up to $1.8 billion in Brazil. The parent company was reviewing what options they had to develop NKTF further in the most efficient way, and also what was the best solution for the shareholders, and then divesting was one option which is being considered, and it's something that we are revisiting and looking at with that, we haven't taken any decision either way.

But we believe that it's a great business. A bit, going through the transition in 2012 a bit like we are in '11, for the same reasons that I mentioned for Subsea 7, and the factory in Brazil is today on schedule … it's a good company.

Henry Tarr – *Goldman Sachs*

That's great. Thank you very much.

Jean Cahuzac

I think I would like to thank everybody for all the questions. As I said before, I remain very optimistic about this business, all the signs, from a global perspective, are the right indicators. And with that, we looking forward to meeting with you in the future at the next earnings call.

Simon Crowe

Thank you.

Operator

Thank you, that does conclude our conference for today. Thank you all for participating, you may now disconnect.