

Subsea 7 S.A. First Quarter 2012 Results

Friday May 11, 2012

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 S.A. first quarter 2012 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 need to press star one on your telephone. I must advise you that this conference is being recorded today, Friday, the 11th of May, 2012. I would now like to hand the conference over to your speaker today, Karen Menzel. Please go ahead.

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 first quarter of 2012, which ended on March 31, 2012. This release can be found on our website, along with the presentation slides that we'll be using during this call. Before we start the presentation, may I remind you that certain statements made in the course of this conference call which express the company's intentions, beliefs, and expectations, are forward-looking statements. 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 filings, including the company's Annual Report. May I also draw your attention to the more detailed disclosure on forward-looking statements that appears in today's announcement. So the call will run for one hour and with that, I'll hand over to Jean.

Jean Cahuzac

Thank you, Karen, and good afternoon to everybody. I would like to make a few observations on the market before Simon runs through our financials and finally, a few words on our expectation for 2012 before we turn to your questions.

I am pleased with these results. We show a higher than typical level of activity in the North Sea, reflecting the improving market environment we are seeing, as well as execution of work that was originally scheduled for late 2011 and which, due to poor weather conditions, has pushed into early 2012. In addition, we have seen good

levels of activity in West Africa and other businesses. So overall, a good set of results for first quarter in line with our expectation.

Our backlog stands at \$8.7 billion, reflecting the continued award of small- and medium-sized contracts and valuation orders on existing projects. We remain confident that we will see further backlog growth as we expect the award of a number of major projects to the market over the next six months or so. Within the backlog, we are working out the remainder of the low-margin work awarded in the North Sea in 2010, and most of this North Sea low-margin work should be completed in 2012. With the exception of Guara-Lula, which as you know is approximately \$950 million at zero margin, our backlog is of good quality and is well balanced with the right split between EPIC and their rate. We are seeing improving pricing in the North Sea and West Africa, and our strong backlog provides a strong foundation for growth.

So turning it now to the market, our clients have ambitious plans, and we are seeing a continued momentum in their desire to bring new reserves into production and to award projects to the industry to enable this. We continue to see growth opportunities in all of our markets, albeit a different pace and these opportunities provide greater visibility today than we have had in recent years.

So let's talk about the different markets. In the North Sea, which includes the UK and Norwegian seas, we have started the year with a strong level of activity, higher than is typical for the first quarter. As I mentioned earlier, a significant portion of which is work which was delayed in late 2011 due to adverse weather conditions, but these results also reflect the improving market environment. The summer season, weather permitting, looks also very busy, but it is too early to know exactly what activity levels will be for the first quarter. In 2012, we expect to complete most of the activity awarded with low margin 2010, as well as executing new or vintage work, which has been awarded with improved margin, so overall we expect to see an improvement in both stop line and margin in the North Sea in 2012. The strong pickup in client activity and significant increase in tendering that we saw in the second half of 2011 has continued into Q1. We continue to see significant opportunities in all geographies in the NSM Sea territory. We expect tendering to remain high, order flow to remain strong with improved pricing, especially for those projects which are offshore beyond 2012.

Moving to West Africa, as previously stated we expect 2012 to be somewhat of a transition year created by the absence of many major awards over the last two years. We are making good progress on projects that are currently offshore, such as Block 31 and we expect EGP3B, Oso Re, and Block 31 to complete in 2012. With all the large projects still in their early stages, the territory will move through a period of lower offshore activity on those projects awarded over the past two years. This will translate to a notable difference in activity levels in the first half as most of these projects complete and the lower level of activity in H2. And for 2012 as a rule, we expect to see lower revenue and lower profitability, as we have said before. The African market remains a very good market. It is a market which is expected to present a number of significant opportunities in the years to come. While it is always difficult to predict precise timing of contract awards, we continue to expect to see a number of major SURF projects in West Africa to come to market during this year. These projects are typically three years in duration, and the period when contingencies are released and profits recognised are when these projects are in their offshore

phase. Major SURF projects awarded in West Africa this year will be in this offshore execution in the late 2013 and 2014.

Moving to the Gulf of Mexico, we also started to see signs of an increased activity following the recommencement of the award of drilling permits. We should see contracts awarded to the market in late '12 and execution in late '13 and '14 in a market which remains competitive.

Turning to Asia Pacific, we have a number of smaller projects in this region that are progressing, and we are in the early stages of engineering and project management on the Gorgon projects. Overall, 2012 will be a relatively quiet year. Furthermore, we expect our joint venture, SapuraAcergy, to deliver a lower contribution in '12 following the rescheduling of the final offshore campaign of the Gumusut project in 2013. Looking at this market in this region, the past 12 months has seen a number of large gas-driven projects in Australia come to award, although further awards are expected to come to market, especially in Australia and Malaysia, over the next 12 months. Our approach is to remain selective on the projects we tender to ensure that we achieve the right return.

And finally, Brazil. Firstly, a few words on Guara-Lula. We have the recent review of this project. We are progressing well with engineering, project management, and procurement for this project, which remains on track to achieve its revised plans as reported in March 2012. There have been no new surprises. Just to remind you, we expect to recognise revenue of approximately \$950 million in '12 and '13, which will be spread c. one-third in 2012 to c. two-thirds 2013 at zero margin. We continue to see more opportunities ahead in traditional deepwater in the Campos basin, as well as pre-salt developments. In 2012, we expect to see further PLSV contract awards to the market, both for existing contracts renewal and new vessels to be built in Brazil. More larger and big projects for pre-salt developments are likely to come to contract award in '12 and beyond, with operations in 2014 and 2015, after which a further round of tenders for the next pre-salt development is expected to be issued by Petrobras in early 2013. The buoy system that we have designed for Guara-Lula, and the experience acquired on this project, positions us well to submit competitive proposals, but such proposals would have to be with an acceptable risk level and the right margin. I am confident that the lessons we learn on Guara-Lula will allow us to reach such an objective.

So in summary, we have seen a continuation of the positive momentum that we talked about in March. Despite the past few days, oil price remains robust, and the robust oil price and rising tender activity around the world underpins order book momentum, all of which reinforces our view that the outlook for our industry remains very positive. We continue to see growth opportunities in all our markets, albeit a different pace, and we remain focused on building quality backlog, ensuring that we maintain a disciplined approach for both risk and pricing prospective. And with that, I'll hand over to Simon to run through the financials.

Simon Crowe

Thank you, John. Good afternoon to you all. We have today published the results for the first quarter 2012. We've delivered a very solid set of numbers, and I'm very pleased with the results. Overall, the company continues to be in good shape with a strong balance sheet, solid cash flow, and record backlog. We continue to see good opportunities in all our markets going forward. As usual, I'll comment on the P & L for Q1 '12, talk a little about the quarterly results in the territories and make some observations about the cash flow. Finally, I'll give you some commentary on how you might think about the company's financials going forward.

Turning now to slide number six and the income statement highlights, revenue for the first quarter was \$1.5 billion with a net operating income for the quarter of \$153 million. We delivered an EBITDA of \$225 million and an EBITDA margin of 15%. Vessel utilisation for the quarter was 86%, which compares favourably to 65% for Q1 2011.

Turning now to slide number seven and the operational performance for quarter one, revenue in the North Sea, Med, and Canada for the first quarter was \$578 million with net operating income of \$78 million. After the weather delays we experienced in the second half of 2011, we've seen high activity levels in the quarter with good progress on Siri Caisson, Skuld, Ormen lange, Skarv and Idun, Tordis Flowline, BP Andrew, and BP West of Shetland. Life-of-Field operations under the Shell, DSVi, Statoil, and ConocoPhillips agreements performed well during the quarter. Revenue for Africa and the Gulf of Mexico for the first quarter was \$528 million with net operating income of \$94 million. Block 31, CLOV, EGP3B and Oso Re all progressed well. Sonamet also delivered another good contribution this quarter. Revenue in Asia Pac for the first quarter was \$86 million with a net operating income of \$3 million. G1, Montara, Lui Hua, all progressed, and the SapuraAcergy JV delivered results as expected on a lower-planned activity. Revenue in Brazil was \$261 million with a net operating income of \$7 million, reflecting the high utilisation of the seven vessels on long-term service agreements to Petrobras. During the quarter, progress was made on the P-55, GSNC Shallow, and the Guara-Lula projects, as well as the i-Tech Superbid III project. Guara-Lula remains on track to achieve its revised plans as reported in March '12. The net operating loss in the corporate segments of the quarter was \$28 million. The majority of the \$12 million integration costs for the quarter are shown in this segment. As expected, we recorded a loss of SHL due to the planned low seasonal utilisation, and we only had one month NKTF contribution as it was shown as an asset held for sale from February the 3rd.

Turning now to the income statement overview for the quarter in slide number eight, admin expenses were \$91 million for the quarter, with \$12 million of integration costs included in this total. The contribution from JVs for the quarter was a loss of \$3 million. This was down compared to previous quarters due to the planned low utilisation on SHL's vessels, NKTF being shown as an asset held for sale, and lower activity in SapuraAcergy. Finance income was \$3 million for the quarter and reflected interest received on our cash balances. FX movements resulted in a loss of \$2 million for the quarter, with the U.S. dollar fluctuating against major currencies. Finance costs in the quarter were \$8 million, which was driven by the interest on the convertible bonds, the Havila facility, and interest expense on our loan and guarantees. In accordance with accounting standards, we did capitalise some interest due to the ongoing construction of the Borealis. The tax charge for the quarter was \$54 million, giving a tax

rate of 36.4%. This increased from last quarter due to the impact of low quarterly profitability in Brazil, which meant that withholding tax suffered, could not be utilised in the quarter, and we had no significant positive one-off items in this quarter. I'd like to remind you that our underlying tax rate is 32% to 35%.and last year, we benefited from a number of one-off items. We noticed some of your estimated tax rates are not tracking the 32% to 35% range. Backlog was \$8.7 billion as of March 31st, 2012, with approximately half of the quarterly additions coming from new awards and half coming from escalation, with approximately \$3.8 billion out of the \$8.7 billion for execution in 2012. Diluted EPS was 25 cents per share for the quarter based on a fully diluted share count of approximately 379 million shares.

Turning now to the cash flow on slide number nine, during the quarter, we generated \$178 million of cash from our operating activities. Net cash flows used in investing activities were approximately \$127 million, reflecting various ROV purchases, some of the costs of our new jack-up barge the Inagha, the Borealis, and the dry-dock spend. Net cash used in financing activities was \$12 million, and our closing cash balance was \$819 million.

Turning now to slide number 10, I'd like to update you on some of the ongoing activities and, as usual, give you some commentary on how you might think about the remainder of '12. We have \$8.7 billion of backlog extending over multiple years. In 2012, we expect to deliver revenue and EBITDA ahead of 2011 numbers, so revenue ahead of the \$5.5 billion and EBITDA ahead of the billion dollar mark. We are monitoring consensus, and we do not at this point see any reason to change the consensus forecasts apart from our JV contribution, which I'll come on to. As always, much depends upon the exact timing of execution for a global portfolio of over 100 projects. We expect utilisation of our vessels to remain good in 2012 and are encouraged by our Q1 numbers. Our JV contribution will be lower in '12 compared to '11. We have sold NKTF and only recorded one month's income before it was held for sale, then sold. It was sold post-quarter end, so we'll show the gain in Q2. I'd like to remind you that in 2011, NKTF contributed approximately \$30 million to the \$104 million coming from our JVs, so without the NKTF contribution, our JVs would have delivered \$74 million in 2011. We expect to deliver a bit less from our JVs in 2012.

We indicated last time that in 2012 you can assume that the admin quarterly run rates should be about \$85 million. The actual number for Q1 pre-integration costs was \$79 million, so assuming a pre-integration run rate of about \$80 million to \$85 million per quarter is about right. We probably have about \$20 million left on the integration costs for the year, with most of these costs appearing in the second quarter. You can also expect our net financing costs to be very roughly in line with 2011. We'll continue to rely on natural hedging of our FX positions and place specific market hedges where we deem it appropriate. We do expect depreciation and amortisation to be about \$380 million for the year, and the quarterly profile will rise as we add vessels such as the Borealis in the back end of the year. So don't divide by four and expect this to be the quarterly number. Our D & A charge for the quarter was \$78 million. We have a robust cash flow forecast for 2012 and beyond. The share buyback continues to progress, and we are well over half way to our \$200 million target with approximately \$130 million spent and 5.4 million shares purchased. Our core banking facilities are in good shape, and we continue to monitor our convertible bond maturity. We will add uncommitted bilateral facilities to complement the committed facility. These uncommitted lines continue to be used on a project-by-project basis for the issuance of guarantees.

For capex in 2012, we're still anticipating a range of \$750 million to \$850 million. This is built up as follows. Firstly, our committed vessel program of about \$450 million, which includes the new Brazilian PLSV; the completion of the Borealis; the new lift boat, the Seven Inagha in Nigeria; the Seven Viking, a new IMR vessel in the North Sea which will work for Statoil; and the Normand Oceanic; secondly, dry-dock and repair capex of approximately \$150 million; and thirdly, we have a number of organic growth opportunities totalling \$150 to \$250 million, and as we have more certainly around these plans, we'll communicate any changes.

We continue to focus on optimising our tax rate. We were impacted by low profitability in Brazil in the quarter, which caused us to suffer additional taxes due to inability to offset against profits. The ETR for the quarter was approximately 37%. Our expectation is for the underlying rate for the full year 2012 is between 32% and 35% when one-offs are excluded. I would use this range of rates for your forecast.

As reported last quarter, we filed our deregistration forms with the SEC on March the 8th, and we are still anticipating that deregistration will be completed in early June. Finally, I can report that the spinoff of our Veripos business is moving forward. We're having a number of meetings with the Oslo boss in the next week, and we hope to move closer to a firm separation date.

In summary, we are pleased with our overall performance in quarter one, and we are well positioned for all the challenges and opportunities that lie ahead. And with that, I'll now pass back to John.

Jean Cahuzac

Thanks, Simon. So, what should you expect for 2012? Our view on 2012 has not changed since March. We expect to achieve progress on both revenue and adjusted EBITDA ahead of the 2011 result, with increased activity and profitability in NSMC offsetting the lower activity and profitability AFGoM as it transitions through 2012. In AFGoM, we expect to see higher activity levels in the first half of the year compared with the second due to the timing of project completion, and in Brazil we expect the second quarter to be adversely impacted from planned dry dock. We also expect the contribution for our joint venture to be lower in 2012 following the sale of NKT Flexibles and the rescheduling of offshore activity in the SapuraAcergy joint venture in 2013, somewhat offset by another strong performance from SHL.

In a growing market the industry key challenges will be the availability of qualified and experienced personnel and managing the supply chain. Our clients fully acknowledge these challenges as maintaining schedule and sustainability in delivery remain their priority. They see us as a key partner to achieve this objective. We are well placed to address the ongoing people challenge to our graduate and conversion programmes. We are also opening new offices, albeit in a selective way, to address these gross requirements. An example, most recently, we have opened an office in Oslo, and we have been very pleased with the response and have been able to attract a sizeable number of very qualified engineers. We are working closely with our key suppliers to plan activity,

managing delivery, and ensuring the requisite quality control programmes are in place and are effective. All of this is necessary to deliver the service required by our clients, and which is only possible with the size, depth, and knowhow that Subsea 7 has.

In conclusion, we continue to see growth opportunities in all of our markets. We remain focussed on building quality backlog, ensuring that we maintain a disciplined approach from a risk and pricing perspective. We are very well positioned. Our financial strength, our large fleet of high-specification vessels, and our engineering and project management resources position Subsea 7 very well for profitable growth, and with this, we'll be happy to answer your questions.

Operator

We will now begin the question and answer session. If you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. That's star and one to ask a question. And your first question comes from Phil Lindsay from HSBC. Please ask your question.

Phil Lindsay - HSBC

Yes, hi there. A couple of questions if I could. First of all, just from Brazil, what are your latest thoughts on the next round of PLSVs in Brazil? I know in the past you've been sceptical about whether these vessels can be sort of built in Brazil in the time scales necessary. Are you any more comfortable now than, say, three or six months ago, you know, in terms of building these vessels in Brazil? The second question is on Australia, just a question, really, about your ability to execute in Australia, specifically on Gorgon. You know, we know it's a competitive market. We know the supply chain looks stretched, perhaps not dissimilar to Brazil, so can you just talk about your experience to date and how you're managing the risk there? Thank you.

Jean Cahuzac

Yes, thank you. Thank you, Phil, for your questions. First, on the PLSV built in Brazil, I think the industry is aware of the challenges of local content constraints and the challenges of building in Brazil. Last year you may recall that we decided not to build a new PLSV in Brazil because at the time we were not comfortable that we had a solution which would allow us to manage the risk and the budget. We are reviewing today what we are having to do on this bid, but it's clear. If we were to commit to a new bid in Brazil, there would need to be two prerequisites. We would need a solution that we are comfortable with on the shipyard side, but we would also need some changes in the traditional Petrobras contract to balance better the risk between the contractor and Petrobras. We are working on that and if we were to fulfil these two objectives, we would be in a position to bid. If not, we will pass.

Regarding Australia, I think you're right when you mentioned there is a pressure on people resources in Australia and on supply chain. It has an impact on the cost of doing work there. It is something that we have taken in account when we bid Gorgon, and we have been in Perth for a while. We have a good team there. But we are also, if I can say, outsourcing some resources within Subsea 7 but outside of Australia to support this project. So the project is going well. I'm comfortable where we are on this, on the Gorgon execution.

Phil Lindsay - HSBC

Okay, thanks. A quick follow up, if I could. Do you have any more visibility or any sort of closer in the process in terms of gaining the permit for the Parana Yard in Brazil?

Jean Cahuzac

The permit in Parana I wouldn't guess when that can happen and, you know, based on the experience of the Guara-Lula project, any project that we are bidding today, is based on the assumption that we will not wait for a license, and therefore, we are putting all the costs in our bid to make sure we are protected.

Simon Crowe

We continue to hold the land, and we continue to try and get that permit, but as Jean says, all the bids are costed with the assumption that we do not have that facility available.

Phil Lindsay - HSBC

Got it. Thanks very much.

Operator

Your next question comes from the line of Frederik Lunde from Carnegie. Please ask your question.

Frederik Lunde – *Carnegie*

Yes, good afternoon and congratulations on the best North Sea results since before the financial crisis in the North Seas this quarter.

Jean Cahuzac

Thank you.

Simon Crowe

Thanks, Freddie.

Frederik Lunde – *Carnegie*

First of all, look at the margins for the rest of this year in the North Sea. Is Q1 a reasonable starting point or was that boosted by, to a large degree, by these completions that were delayed from last year? How do you think by pricing this year compares to, say, 2006, 2007, 2008?

Jean Cahuzac

Well, when you look at... when you look at the margins for the new jobs, it's probably fair to say that we are back to the margins that we had seen in 2006, '07, and '08. What we said about the North Sea, that we still have a number of projects which were awarded in 2010 which will be executed in 2012 and will be phased out in 2012, and then we start to see the new vintage of projects kicking in with improved margin in 2012, and it will be a bit better in 2013. So I think it's... I think the North Sea market continues to show the momentum that we had seen last year, and we are in a position today to be selective in the projects that we are bidding.

Frederik Lunde – *Carnegie*

Thanks, and looking at the culmination of the North Sea and West Africa, should I expect those two units to report higher revenue and higher earnings in 2012 than 2011?

Jean Cahuzac

Well, I think as you said, what we said is that the North Sea will balance West Africa when West Africa goes a bit down in the second part of the year, and that will basically lead us to the indication that we are getting from the overall consolidated results for '12, which will see progress on from '11. One of the things in West Africa which you need to be contrasted that some of the revenue that we have in West Africa comes from procurement, and on these large EPIC contracts, the margins which are in procurement are lower than the margins that we have on engineering project management and execution. So while to overall margin in West Africa started to improve, or has started to improve, for some time on the new projects which will be awarded to the market in the coming months, overall there is, on percentage margin, there is an impact of procurement.

Frederik Lunde – Carnegie

Thanks, a final question on the North Sea. If you look at the charge showing the progression on the major project, it seems like you have a quite good visibility this year. I'm just wondering how much available capacity you have to take on small contracts, small jobs.

Jean Cahuzac

We have some available capacity at the end of the year. It depends what's going to happen in Q4. Will we have a repeat of 2011 or not? It's too early to say, but the other point you mentioned in the North Sea that we expect some more large projects to come to market award in the summer, and to give you an example, I mean, if you have BG Knarr, you have a Marathon Boyle, they are all projects which are more than \$300 million or \$400 million. Which obviously means that we require vessels that we would have to execute this project post '12, if we were to be awarded this project. I don't know if we will. But there is also the added value of the project that we have on this EPIC project which is going in the right direction in addition to vessel utilisation. So when I look at the North Sea, there are definitely positive signals.

Frederik Lunde – Carnegie

Thanks.

Operator

Your next question comes from Goran Andreassen from R S Platou Markets. Please ask your question.

Goran Andreassen – R S Platou Markets

Yes, hi, thanks for taking my question. Just a question on the likelihood of actually booking major West Africa contracts now for the next months and the likelihood of having them and also execution in late '13 because you stated... you made that statement over the last quarterly reports that you expected to be awarded such contracts, but, you know, timing of such awards seems to be quite hard to predict. Also, with that in mind, how do you view offshore activity levels in '13 West Africa relative to what you saw in '11 and what you expect for '12, and then margin impact? Thank you.

Jean Cahuzac

Yes, as you say, predicting the timing of contract awards in Africa is never easy. I still have the same opinion as we said in March. We expect a number of large projects in West Africa to be awarded in the summer to the market. Again, I don't know who will win these contracts, but they should be awarded to the market this summer. The most likely contracts to be awarded to the market are Ehra North in Nigeria, Lianzi in Angola, CRX in Angola, Total Egina will be more likely to be at the end of the year, and I could go on with the list, so there are a number of projects which will come to market this year. When you look at the timing of these projects, it takes three, four quarters before we reach the 5% POC and therefore start recognising revenue and profit, and the operation depends on the nature of the project, so I think some of the projects will be late '13, '14; some may be '14, but I think the ballpark figure is right. Regarding 2013 and the exact timing of utilisation on the existing projects and the view of it, etcetera, it's a bit premature to make a prognosis, but as we said, I think we believe 2012 is a transition for Africa. Things should pick up for years to come.

Goran Andreassen – R S Platou Markets

Okay, just to then talk about... a little bit about margins in '13, because you know for pretty sure that you're not going to have these big projects in offshore phase so that means it's going to be – if you're awarded some big contracts over the next months in West Africa, it will be a lot of procurement work to be done in '13, so that means that you can't expect to see, you know, West Africa.

Jean Cahuzac

I think on the new projects and the timing of what is executed in '13 versus '14, I think your comment is probably broadly right, but don't forget that there are other projects which are going to be in operation in '13, '14, like CLOV, and we have also in the last two quarters a significant amount of VOs and additional work on the existing projects,

which shows the strength of the programme, so I think it's a mix, but it's too early to make a prognosis on '13, which would be accurate at this stage.

Simon Crowe

It's always a mixed bag, and we have other things that come into Africa, but as Jean says, if we get awarded something in the next few months and three quarters later it would start to feed into our financials, which would be towards the end of '13.

Jean Cahuzac

But we'll have a better picture in the months to come. One of the things I liked in our backlog is that although we haven't announced large projects in the last two quarters, we've seen still a healthy growth of backlog based on the existing contract and the NVOs. We also have the conventional and you have projects like OFON for instance, which is going to be in operation next year, so it's a mix of different parameters.

Goran Andreassen – R S Plaza Markets

Very helpful, thank you.

Operator

Your next question comes from Alex Marie from Exane. Please ask your question.

Alex Marie – Exane

Good afternoon. Thanks for taking my questions. First of all, on your JVs contribution regarding the SapuraAcergy scheduling of work, I was wondering whether this was having an impact on Gumusut and the execution and completion of the Gumusut project, and consequently any impact on your profitability there. And still in the JVs, do you have any more visibility now on the timing of the Sonamet sale than you did three months ago. And finally, if you could just also give some colour on the conventional activity in West Africa, because I think that's missing from your press release. Thank you.

Jean Cahuzac

Okay, first let's talk about Gumusut. The project is going on very well. I must say I am very pleased with what the team is executing there. The delay of operations in 2013 is due to some late arrival of equipment from the operator, but that doesn't affect by any means the profitability of the project. It's just a question of the timing, so it's shifting, and that we will have as a consequence. The JV will have to work on another different project in this year, and therefore, our comment. Regarding Sonamet, the divestiture from Sonamet is always difficult to predict. We are entering in a new period of election in Angola, which never makes things easy. It's still going to happen at some stage. It's difficult to put a prognosis on it, but we are still operating as normal and we are still delivering very good results with Sonamet.

Simon Crowe

We're very pleased with Sonamet, we're not in a hurry. I'm very pleased with the performance of Sonamet, as is Sonangal.

Jean Cahuzac

The conventional market – and to make a comment on the conventional market – I was in Houston last week at the OTC and met with the major clients who are in conventional in Nigeria in particular, if you take Chevron, you take Exxon Mobil. They clearly remain committed to this part of the market, and there is work to come. If you look at an example, there is the Exxon Mobil EPC4 contract coming to markets probably at the end of Q2 or Q3 this year, but when you look at the Ofon project, which is going on very well, and additional work coming, it looks also encouraging. To some extent, the conventional explains some of the backlog increase that you've seen because it's usually through variation orders that conventional grows.

Alex Marie – Exane

Thank you.

Operator

Your next question comes from Ian MacPherson from Simmons. Please ask your question.

Ian MacPherson – Simmons

Hi, thanks. I had a couple of questions about Brazil. First, looking at the Q1 results, even if you back out an estimate for the revenue contribution from Guara Lula, the margins excluding that are still... they still look low... low single digits, and I think you indicated that Q2 was also going to have shipyard time impacting your margin in Brazil, and then I wonder if you could share what your expectations are for the margins, you know, for the rest of the year and in order to hit your targets for this year on a group level, do you also need Brazil margins to come up in addition to the strong North Sea, or can the decline in Africa be compensated completely by North Sea without much improvement in Brazil. I'd be curious to hear about that, and then one more follow up afterwards by me. Thanks.

Jean Cahuzac

Okay, thanks. Thanks, Ian. Regarding Brazil, we are in two different types of activity in Brazil, if I want to summarise. We are in the PLSV business, which is a long-term contract, direct contract, low-risk contract. There are a number of contracts which are being renewed. We are in discussions with Petrobras on our offer for the K3000. There are three other PLSV contracts which might be renegotiated and reviewed during the year which could have positive impact in '13 if these negotiations are successful. So the trend on the PLSV market, on the existing PLSV, is showing some good trend and some positive signs for the years to come. I think for 2012 we are executing the contracts as they are, and the numbers will be what they are. Regarding the pre-salt in Guara Lula, as I said before, I don't expect a change compared with what we think in Q1... at the end of Q4 sorry – in March – I'm quite encouraged with what I see in the execution of this project on the way forward. So I'm not expecting bad news in Brazil. I don't expect either significant improvement this year. I think it's more for medium longer-term post 2012. When we indicate how we see 2012 compared with 2011, we take that into account, which means that there will be improvement in some other parts of the world, mainly in the North Sea, but not only in the North Sea, to compensate for what we are seeing about Africa.

Ian MacPherson – Simmons

So I guess... does that mean what you're saying is that you think you can hit your targets this year without getting a major uplift in EBIT contribution from Brazil, you know, 2011 to 2012, is that fair?

Jean Cahuzac

Absolutely.

Ian MacPherson – *Simmons*

Okay, good, and then regarding the permit for the Parana base, it sounds like you don't have perfect clarity yet on when that might happen and you're bidding for this next round of risers is noncompliant, and also seemingly, you know, more costly than you would want to be if you were really bidding competitively or at your best, and I think the market's impression is that you're content to be in that position for the next round of riser tenders, but then as we go to the end of the year and there's another subsequent round, are you still content to be bidding on that basis, or are you really sensing that you need to have the permit in order to compete in earnest for the subsequent awards?

Jean Cahuzac

Well, first, you know, we have challenges in Brazil like the whole industry, and the cost base in Brazil is very high for everybody, so, you know, when we bid these new jobs, we've learned from our lessons on Guara Lula, and I think the competition has the same type of challenges that we do, including licenses and everything else, so I'm not sure that we are in a worse situation than the competition from that perspective. It's expensive to operate in Brazil and it's something that we have to put in our bid, and that we will. So regarding the noncompliance, we are fully compliant from an engineering and design perspective. In fact, we probably are ahead of the competition. That is because we have already executed the engineering of Guara Lula. We have a system which has been approved. So it is a positive situation to be in. What is true is that in terms of the risk taking, we have to take some exceptions on the Petrobras contract to mitigate the risk better than what we've done in Guara Lula, so the future will tell if we are competitive or not. I'm not going to... I cannot make prognosis on who will be selected for the first round, but I think there is a lot of work, and I believe that we have our change on the basis that I just said, with controlling the risk and putting all our costs in the bid.

Ian MacPherson – *Simmons*

Okay, very helpful. Thanks, John.

Operator

Your next question comes from Paul Dahl from Swedbank First Securities. Please ask your question.

Pal Dahl – *Swedbank First Securities*

Hi. A couple of questions from me. First with regards to the outlook for the backlog growth, can you please elaborate a bit more on that? We've seen that the industry as a whole, if you count yourself, Technip, Saipem saw

backlogs rise by some 15% sequentially in Q1 and 37% year on year, and yourself, you've seen, you know, your backlog rising by \$2 billion from \$6.7 billion one year ago. Can we expect these growth patterns to continue the next couple of quarters?

Jean Cahuzac

Well, Pal, thanks. I think when you talk about backlog, I don't really look at backlog on the quarter-to-quarter basis because it depends on the timing of the award of some of these large projects to us or to the industry or to the market, but I do expect the backlog to continue to grow. When you look at the number of projects, of large projects as well as small projects, which we think will be awarded to the market in the months to come, if you assume that we are going to get our share of these new backlogs, the backlog should continue to grow. What is important for me is not so much the growth of the backlog, but it's the quality of the backlog, and I believe that we can achieve both growth and quality, taking in to account the visibility that we have. Our tendering department is very busy, and we need to continue to focus on the risk management and the risk assessments, and that's what we are doing, and I think the backlog will be a consequence of all this action that we've taken into the market. It's difficult to make a prognosis on what it will do in percentage, but if I go around the world, I mean, just to give you a kind of a flavour of the contracts that I see awarded within the next six or 12 months, or even earlier for some of them, and it's not a complete list, obviously, but if you take the North Sea, I was mentioning we see larger projects coming to the North Sea, which position companies likes us well because you need the size, you need to execute these projects, but if you take BG Knarr, it's probably north of \$500 million and should be awarded this summer. You take Marathon Boyle, which is more than \$200 million. You have Husky White Rose, which is in the \$100-\$200 million. You have Statoil Vessel, Compression Vessel, which is probably early 2013, but is also a large contract. If you talk about AFGoM, there is work in West Africa. It's not only in Nigeria and Angola with the project that I mentioned before, but it's also in Ghana with Tullow's TEN Project which is also a very large project. Brazil, we talked about it, and in Asia, you have projects like Browse for Woodside, which is north of \$700 million which will be awarded probably by the end of the year.

Talking about the new frontiers, which I think also show how strong this industry will be in the coming years, we see also further development in East Africa, for instance. If you look at Mozambique and they are, I would call, fast-track projects for Africa with Anardarko and ENI. You have the Mediterranean, which when the political situation stabilises a bit, I think we should see a bit more activity in the East part of the Med. And the Gulf of Mexico, again, it's a slow improvement, but it's a continuous improvement now. I think we are reviewing with the management here the activity last week, and when you look at the permits which have been awarded, it's coming back up. We have tenders coming to be proposed to the market.

So the overall picture of the world is pretty good, and we have good visibility. When you talk about medium, long-term, I shouldn't forget to mention the pre-salt in Angola where the first exploration was ongoing. So we have visibility, but there is a different pace of growth, obviously in all this area.

Pal Dahl – Swedbank First Securities

Just to try to better understand the market development here very recently, we've seen year to date that, you know, or at least the past six months, that you have been very successful winning these headline contracts. Should we expect the prices across the board has increased like you indicate in West Africa now for the upcoming awards?

Jean Cahuzac

Well, the price... when you talk about the pricing in West Africa, we had a period where the prices were good price, but lower than what we had in 2007, 2008. The CLOV project is a lower margin than the PazFlor project. It's a good margin, but it's a lower margin than the PazFlor project. We are seeing now the margin going up in West Africa, and the trend is similar to the North Sea, taking a bit more time to materialise. One other thing not to forget is what I said before. On these large projects, you most of the time you have a very significant part of the project which is supply chain, and the margins on supply chain are lower than on the rest of the projects, so in a consolidated manner in percentage, the margin of African projects are lower than the North Sea, but on the added value part of this project, if you talk about engineering, project management and execution, then we are seeing good margins, too.

Pal Dahl – Swedbank First Securities

Thank you very much.

Operator

Your next question comes from Mick Pickup from Barclays. Please ask your question.

Mick Pickup – Barclays

Good afternoon. Just a quick clarification, actually harking back to what Freddie asked earlier. It's that North Sea margin in Q1. I'm just a bit confused, A: why it's so strong, because I would have thought the workload carried over from the back end of 4Q '11 would have been a lower margin than that, and secondly it is a summer season this year, I don't think we've ever seen a 1Q-3Q margin variance which hasn't had 10 percentage points on that. So if I took 10 percentage points on top of 13, I'm way back into really good positive territory, so is it that the Q3 is already fully booked up so that we don't expect to see any variance on it? And secondly, can you just talk about on that late '13, late '14 guidance where you talk about the contracts... and I appreciate you're very positive on it... are you

trying to say there that you're happy with where '13 numbers are and don't get carried away if you win new projects, or are you actually indicating that you think '13's got a bit too much baked into it already?

Jean Cahuzac

Thanks, Mick. Regarding the North Sea and looking at the Q1 results, it's a combination of utilisation of the vessels because the operators wanted to continue operations that they couldn't really fully execute in Q4. We had some successful operation of operation in Q1, so pretty good utilisation, but also a project which came to execution in Q1 rather than... more than the usual year, I would say. So it's a combination of utilisation, but also more activity than usual because the clients want to catch up, and usually the previously year they are trying to catch up, but more in Q2, Q3 than in Q1, so it's this type of combination. Q3, we are not fully booked, but we're so far it looks good. Q4, there are still some uncertainties about what will happen, but that's not unusual at this time of the year and no reason to believe that the client would change our approach, but that still needs to be proven. Regarding the impact in '13 and '14, regarding the... if I take the different geographical areas, projects which are awarded in the North Sea, as you know, are executed pretty quickly, so it will have an impact in '13 even if they were awarded late '11 or '12. Projects in Africa, depending upon the time of award, there will be some positive impact late '13, '14. They will be in full operation in '14, so the impact in '13 maybe with the type of activities which have lower margin that what you see in '14 for given projects.

Mick Pickup – Barclays

Okay, thanks, and while I'm here, could I just say thanks to Karen for the last couple of years. I assume this is her last quarter.

Jean Cahuzac

Yes, and I was going to say that at the end, but...

Simon Crowe

You pre-empted us, Mick.

Jean Cahuzac

... valuable impact. We wouldn't be where we are without her.

Mick Pickup – Barclays

Okay, thank you.

Operator

Your next question comes from Ryan from Citi Group. Please ask your question.

Ryan Kauppila – Citi Group

Yes, good afternoon. Could you just give a quick update on the Borealis and what month you think she'll take on her first job, and then secondly, during your meeting last week on the Gulf of Mexico, I'm just wondering what your thoughts are on pre-Macondo, post-Macondo operations in the Gulf. Are you seeing a different attitude towards... from operators? Is there a different contracting style or method on your part? Just any sort of differences you've seen from Macondo.

Jean Cahuzac

The Borealis project is working very well. She's in Rotterdam for installation of the pipe handling equipment, the S-lay, the tensioners etcetera. The project is on budget. She has her first job in CLOV in Q4. If she was to be ready a bit earlier, late Q3, beginning of Q4, we may try to get a filler job, a small job somewhere. Remember that she is certified for the North Sea. She can also work in different parts of the world, the Gulf of Mexico, Mexico, whatever, but it would be a filler job just to help to start the vessel before she goes to the major project on CLOV. So I'm very pleased with the progress on the Borealis, and I think it shows the strengths of our construction people.

Regarding the Gulf of Mexico, it basically took two years to actually catch up on the level... not catch up on the level of activity. I think if you... if I recall the numbers that I've seen, if you look at the number drilling rigs and you look at the trend of the number of drilling rigs being used, the forecast of drilling rigs being used now compared to where we were with pre-Macondo, there is about 10 less rigs in operation in the next two, three years than we would have thought would have been in operation pre-Macondo. So activity picking up... not to the same level as pre-Macondo, but a good level of activity. Regarding what we are seeing... what we are seeing in the Gulf of Mexico is what we are seeing, I would say, worldwide with all the IOCs, is even more importance and more focus

on the risk management side, and it's not only what's being done in terms of planning the job and relying on more risk analysis and engineering work. It's also on the implementation of containment systems in case of if a problem was to reoccur, which is design and installation of equipment around the sea bed. It's also additional work on the Life-of-Field, IRM side where we have good operations here to actually survey and test facilities, and the challenges are the same as they are everywhere. It's just people... people and supply chains and we have a strong team in Houston also to face that. So I think it's going in the right direction. It's not as fast as the North Sea, definitely not, but it's going in the right direction. In terms of the type of contract and the requirements of the client, companies like Subsea 7 are very well placed because what is expected is what I said before. It's more engineering, more project management, more quality control systems, and working with the supplier in a very close way. So encouraging, but we're not in the North Sea trend yet, but it's going in the right direction.

Ryan Kauppila – *Citi Group*

Okay, thank you.

Karen Menzel

And just looking at the time, I think we have time for one final question.

Operator

And your final question comes from Erik Tonne from SB1 Markets. Please go ahead.

Erik Tonne – *SB1 Markets*

Yes, hi, it's Erik Tonne from SB1. I just wanted to understand a little bit better the competitive situation in Australia because you mentioned in the report and you talked about it as well, that you're seeing quite aggressive competition and very competitive pricing in that market and I'm wondering a bit why is it so? Is it so that the main players want to position themselves for the longer-term growth, or are you seeing more competition from typical newcomers in that market?

Jean Cahuzac

Well first, you know, when we say it's a competitive market, it's relative to some other areas. So we also see in Asia a trend of improving profitability on the projects. It's not at the same pace as we're seeing in the North Sea, for instance, because there is more competition. But, you've seen McDermott for instance, been quite successful, not only in the case of Australia, but on a recently awarded project. I think it's a question of timing. It's a question of priorities that all of us give for certain projects. In terms of the regional competition, there is some regional companies, but they are not able, they are not as well-positioned as we are to bid for the last project like Ichtys and Browse for Woodside etcetera, that we are. So I think it's going in the right direction but at a different pace, and I personally believe that it will continue to improve in Asia and in Australia, but it's going to take a bit more time before we see the same level of margin. But it's not about the market; the trend is also going in the right direction.

Erik Tonne – SB1 Markets

Okay, and do you expect McDermott, for example, to be able to bid in a similar pattern also internationally and then grow rapidly and become a strong competitor in this segment at all?

Jean Cahuzac

I think I will let them answer the question. I think, you know, when you look at Subsea 7, we think that we are very well positioned for this more complex project in terms of resources, vessels, and systems, and the future will tell who will be able to compete for this type of business, so I wouldn't comment on the competition directly.

Eric Tonne – SB1 Markets

Okay, thank you. That's it for me. Thanks.

Jean Cahuzac

Well, I would like to thank everybody for the call. Thanks for your questions. Again, I mean, I would like to thank Karen for all the support that she gave me and the whole management team and the communication that she had with you guys. So thanks, Karen.

Simon Crowe

I'd like to thank you as well, Karen, for your drive, dedication, determination. I think we wish you all the best in your new endeavours, and we'll certainly miss you, and I thank you personally for all the help you've given us and the investment committee as a whole. So thank you.

Jean Cahuzac

And I may even one day forgive you for being a Manchester United supporter, but that's a different problem. With that, I would like to thank you, and look forward to talking to you at the next conference call.