Subsea 7 S.A.

Subsea 7 S.A. Fourth Quarter and Full Year 2012 Results

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Speakers

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

Paul Gooden

Thank you, and good afternoon. This is Paul Gooden, Investor Relations Officer at Subsea 7. Joining us today are Jean Cahuzac, our Chief Executive Officer; Ricardo Rosa, our Chief Financial Officer; and John Evans, our Chief Operating Officer. Today's results for the fourth quarter and 12-month period which ended on 31st December 2012, the press release can be found on our website, along with the presentation slides we'll be referring to in today's call.

Before we start the presentation, I'd 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. Future results and trends could differ materially from those which are in such statements. Details of these can be found in the Company's filings, including the Company's annual reports.

May I also draw your attention to the more detailed disclosure and forward-looking statements that appear in today's press release

The call will run for around an hour. And with that, I'll hand you over to Jean.

Jean Cahuzac

Thank you Paul,

Good afternoon and welcome to everybody

I would like to reflect briefly on 2012 results and then Ricardo will run through our financials; and before we take your questions, I will make some observation on the market and our expectations for 2013.

2012 was another year of significant achievement for Subsea7. In light of this performance and our confidence in the future, the Board recommends that shareholders approve a special dividend in 2013 of $ 0.60c per share at the AGM in June for payment in early July.

To summarize what has been achieved last year. We have delivered strong financial results in line with our expectations as 2012 full year revenue grew by 20 % and Adjusted EBITDA by 16 % compared with the prior 12 months period. We have reached a record Backlog of $ 9.1bn at year end. Our new backlog is of good quality work. It includes a good balance of medium size and large projects with the right split between EPIC, lump sum and day rate. The integration process following the merger in early 2011 has been successfully completed ahead of schedule and we have met our objectives. We have been able to broaden and deepen our engineering and project management expertise worldwide and have increased this workforce by over 400 in 2012. We continue to attract talented people to our business helped by our graduate and conversion training and development programmes.

We made significant progress on our fleet enhancement program. The highlight was the addition to the fleet of the Seven Borealis for SURF operations. She was delivered on budget and on schedule to start operations on the CLOV project offshore Angola. She has already completed the first phase of project pipe-laying scope with 6 lines installed in 1,400 m water depth. But our investment was not limited to the SURF business segment. The Inagha has started successfully Hook-up operations in Nigeria early 2012. The Seven Viking , a state of the art life of field intervention vessel started it multiyear contract with Statoil on schedule in Q1, 2013. The construction of the PLSV Seven Waves is on time and on budget. She will start mobilization to Brazil mid-2014. The Korean shipyard has started the construction of our new North Sea Diving Vessel and delivery is expected in 2015. We continue to look at opportunities to enhance our fleet in a disciplined manner, in line with business growth opportunities. To be clear on our approach, we remain selective with a focus on projects which we expect to deliver the right financial return on investment. Over time, we will also continue to retire or sell our older and lower specification vessels.

We continued with our plans to strengthen our local presence with the right set-up and the right industrial partners.
We are positioning ourselves with a strong local content in targeted markets. This approach delivers results: one example has been, early 2013, the award in Nigeria of a large project - Ehra North – with our newly formed Joint Venture NigerStar 7.
And to conclude my comments on the year, we made record distributions to shareholders, with a share buyback of $200 million, distributing a cash dividend of $199 million, and spinning off Veripos as a dividend in kind.

I would like now to make some comments on the Q4 results. On you can see on slide 4, it was a 'solid' quarter in spite of disappointing results in Brazil. In the North Sea, activity levels were high, although margins continued to be impacted by the execution of lower margin contracts awarded in previous years. Vessel utilisation was good at 88%; but down on the prior year period when utilisation had been unusually high as clients were prepared to extend more projects delayed from previous years and to take the risk on weather downtime. In West Africa, the quarter benefitted from a high level of offshore activity and from strong project execution. A number of projects were in their close-out phase, including Block 31 PSVM and EGP3B. In Asia Pacific, we had also a good quarter. The SapuraAcergy JV's vessel, the Sapura 3000 was involved in the offshore phase of the Lan Do project in Vietnam before undertaking a successful project in Mexico, and the Rockwater 2 was fully operational in the quarter. In Corporate, there was a positive contribution driven by high activity levels at Seaway Heavy Lifting which was active on the Gwent-Y-Mor offshore wind farm. Brazil, in contrast, incurred a net operating loss. We increased the estimated project-life loss on Guara-Lula by approximately $52m. This was driven by 2 main factors. A commercial dispute with our client which emerged during the quarter. And revised contingencies to take into account risks associated with the timing of delivery from some of our subsea equipment suppliers.

Turning to slide 5, we finished the year with a record backlog of over $9bn. The key award during the quarter was Martin Linge, the biggest award ever in the North Sea SURF market. It underlines the growing importance of our extensive capabilities and scale in our industry. Momentum in order in-take has continued into Q1 2013, as reflected on slide 6 where we set out announced order flow to date. The North Sea has been very active, but it is noteworthy that we won our first award in Mexico, and that new contracts have also been awarded in West Africa. Since we prepared this slide, we have also announced a $ 300m contract for the Seven Seas in Brazil.

One trend to highlight is the growing importance of technology in these new awards. We are one of the key technology leaders in the subsea industry and our ability to develop and implement new technologies plays a key role in contract awards. For example, The Aasta Hansen project will see the first installation of the Steel Catenary Risers and the first reeled installation of mechanically lined pipe in the North Sea. I'll hand you over to Ricardo who will run you through the numbers

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Ricardo Rosa

Thank you Jean and good afternoon everyone. As Jean has stated, the results for the fourth quarter 2012 reflected a generally positive trend with revenue and net income at higher levels than the same period last year. I will now discuss the consolidated income statement and the territories' operating results for the fourth quarter and comment on the cash-flow and liquidity. I will conclude with some financial guidance for 2013.

As shown on Slide 7, fourth quarter revenue was $1.6bn, a 14% increase on the fourth quarter 2011 due to higher activity levels in the North Sea, Brazil and Asia-Pacific. Net operating income, at $180 million, was $43 million higher than the prior year fourth quarter . This was despite a decline in global vessel utilisation to 82% from 88% in the fourth quarter 2011. Despite higher revenue, net operating income decreased in Africa and Gulf of Mexico compared with the prior year period due largely to project timing and mix. It also decreased in the North Sea and Canada due to lower vessel utilisation and the impact of lower margin contracts awarded in previous years. Asia-Pacific performed strongly in large part due to our Malaysian joint ventures, while the Corporate segment made a positive contribution as restructuring costs declined and Seaway Heavy Lifting experienced high activity in wind-farm installations in the Irish Sea.

Net income was $149 million, up 39% on the prior year period, driven by higher net operating income combined with a lower effective tax rate and a net foreign exchange gain. These positive variances more than offset increased finance costs which were $10 million higher than the prior year period due partly to the issuance of the $700 million convertible note in October. Adjusted diluted Earnings Per Share was 38 cents for the quarter compared to 27 cents for the prior year period, an improvement of 41%. The full year 2012 results benefitted from a gain of $244 million on disposal of our interest in NKT

Flexibles. Adjusted diluted earnings per share, which excludes this gain, increased to $1.59 from $1.21 in the prior year, an improvement of 31%.

I will now turn to Slide 8 and the Territories' operational performance in the fourth quarter. North Sea and Canada delivered revenue of $699 million in the quarter, up 19% on the prior year period. Work progressed during the quarter on Laggan Tormore and West Franklin, offshore UK; Ormen Lange, offshore Norway; and Siri Caisson, offshore Denmark. Projects substantially completed in the quarter included Terra Nova, Alta and Skuld. Net operating income fell in both absolute and percentage terms compared with the same quarter 2011 due to lower vessel utilisation and the impact of lower margin contracts awarded in previous years. Africa and Gulf of Mexico generated revenue of $611 million, broadly flat compared to the prior year period. The MPN Satellite Field Development was substantially completed during the quarter, and there was significant progress on Block 31 PSVM and CLOV. A lower margin on the CLOV project, which was tendered in a more challenging commercial environment, contributed to the reduction in the Territory's net operating income margin compared to the prior year quarter. Asia Pacific & Middle East delivered revenue of $55m, up 45% on the prior year period. Progress was made on G1, offshore India and Gorgon, offshore Australia. The Territory's net operating income of $18 million compares favourably with the net operating loss of $ 7 million in the prior year period reflecting both the margins on these projects and the strong contribution from the joint ventures. Lastly, Brazil recorded revenue of $241 million, a 29% increase on the prior year period reflecting the higher activity on the Guara Lula project. Brazil's net operating loss was $29 million due to the $52 million increase in estimated project life losses on Guara Lula which Jean has already highlighted .

On slide 9 we show the revenue and net operating income generated by each Territory for the full year 2012.I would just highlight that the NSC and AFGOM Territories, in total, accounted for 80% of the Group's revenue for the year .

Turning to slide 10, I'll comment on some specific line items in the consolidated income statement. Administrative expenses for the full year amounted to $373 million. This was lower than the $390m we had guided to, driven by cost control measures and integration costs which came in $ 1million below guidance at $29 million, of which $9 million were incurred in the fourth quarter. The contribution from associates and JVs fell to $86m, largely due to the disposal of NKT Flexibles early in the year. Net operating income of $808 million is stated after depreciation of $333 million. Net financing costs were $29 million and broadly in-line with our previous guidance. The $244 million gain on disposal of a subsidiary related the sale of our 49% interest in NKT flexibles while the $6 million gain on distribution was the result of the Veripos spin-off as a dividend in kind. Other gains and losses largely comprised net foreign exchange gains incurred during the year. The full year effective tax rate was 20.8% or approximately 27% after excluding the tax-exempt gain on disposal of NKT flexibles and gain on the Veripos spin-off, reflected the benefit from certain discrete prior year tax items. The underlying effective tax rate, excluding both the prior year discrete items and the gains on the disposals, was 30.3%, or 1.7 percentage points below the low end of our guidance. This reduction in underlying effective tax rate was largely driven by changes in the geographical mix of the Company's profits.

Turning now to Slide 11, net cash generated from operating activities in 2012 totalled $515 million after absorbing a $356 million increase in net operating assets. This increase, in part, reflected the growth in trade receivables during 2012, generally driven by higher activity and in part reflects a reduction in deferred revenue as customer advances were consumed in procurement of materials. The main elements of this increase have been monetized in the first quarter and we do not expect to see further growth in the net operating asset balance. Turning to investment activity, cash capital expenditures totalled $713 million, slightly below our guidance, due to the timing of payments and were partly offset by net proceeds from the disposal of NKT Flexibles which amounted to $344 million. Net cash inflow from financing activities was $258 million, with the $699 million in proceeds from the 2017 convertible bond issuance more than offsetting the amounts distributed to shareholders in the form of share buy-backs and dividends. We finished the year with a strong balance sheet and high liquidity levels that were reflected in the gross cash balance of approximately $1.3bn.

I will now turn to slide 12 to provide you with some financial guidance for 2013. We do not expect vessel utilization in the first quarter to match the high level achieved in the first quarter of 2012 and we will be executing the offshore phase of the Guara Lula project throughout 2013. Nevertheless, we expect both revenue and Adjusted EBITDA to show some progress although higher depreciation, finance costs and effective tax rate are expected to negatively impact earnings per share when compared to 2012. I will now provide you with guidance for 2013 on certain expense lines. We expect administration expenses to be between $350 million and $370 million. No additional integration costs are expected to be incurred. Financing costs, net of capitalized interest and finance income, is forecast to range between $40 million and $45 million, higher than 2012 due mainly to the recent issuance of the $700 million convertible note. Depreciation and amortization is expected to rise to between $380 million and $400 million, the increase on prior year mainly reflecting newly built vessels such as the Seven Borealis joining the fleet. The underlying effective tax rate is projected to range between 32% and 34%, subject to changes in the geographic mix of revenues.

We are projecting capital expenditures in 2013 to total between $750 million and $850 million. Of this amount, between $425 million and $475 million is expected to be operating in nature and will include dry-dockings and upgrades to the existing fleet as well as investment in other equipment and onshore facilities. The remaining expenditures, ranging between $325 million and $375 million, are mainly earmarked for the on-going construction or acquisition of new vessels as part of our fleet enhancement programme which Jean has already discussed.

Lastly, I will comment on our use of liquidity in 2013. We expect to continue generating significant cash from operating activities. We intend to use the liquidity to fund continued capital investment in response to growth opportunities, a recent example of this being our acquisition in this first quarter of the Seven Sisters. In addition we expect to fine-tune our debt profile where value-adding and fund the cash dividend proposed by our Board.

With that – I'll pass you back to Jean.

Jean Cahuzac

Thank you Ricardo, I would like now to have a few comments on our outlook and overall strategy.

Starting with business outlook. As Ricardo already told you, we expect 2012 Adjusted EBITDA to be in line with consensus expectations. Turning to 2013, it is still too early to get a detailed picture of what next year will be. We remain positive about medium and long term market prospects but also expect the rate of progress to be tempered by the timing of some projects awards to the Industry during 2012. As we mentioned previously, we have seen projects awards to the industry being delayed for administrative reasons in Africa – we are also seeing in different part of the world supply chain bottlenecks having some negative impact on client projects award schedule. Some of their projects have being moved out of 2013 into 2014 and we could see this trend to continue in the first part of next year. Make no mistake, we see a lot of medium term demand, these restraints on short term growth are largely timing issues.

Turning to the territories. In the North Sea, we expect levels of tendering to remain high with improved pricing. It is too early to be definitive on 2013, but a number of factors may temper the rate of progress in this area. Some of our backlog was awarded late in 2012, meaning that the offshore activity associated with this back-log will largely be in 2014. There is still an unknown on vessel utilization during the winter period : vessel utilisation in 2012 has benefitted from particularly high utilisation in the North Sea as clients were willing to take weather risk in Q1 to complete work carried over from the prior year. 2012 was a bit of a 'catch up' year for our clients in the North Sea, and it remains to be seen if 2013 will enjoy similarly high Q1 utilisation in the North Sea. One of the two pipe-laying vessels active in the Territory in 2012 will transfer to Brazil in 2013 to execute the Guara Lula offshore installation. In Africa, as we said in August, delays in market award of some large projects will result in their offshore operations taking place in 2014 and beyond rather than 2013. CLOV will be in off-shore phase in 2013. Project execution is going well but as we've said before the CLOV contract was priced in more difficult times, and doesn't have the same margin as some of the contracts we're closing out in 2012. In Asia, tendering levels are slowly improving, and we expect our Joint Venture Sapura Acergy to start operations on the Gumusut project and the Gorgon project late 2013. In Brazil, the opportunity exists to renew the four PLSV contracts in late 2013, this is still subject to successful negotiations with Petrobras. We expect to be in the installation phase on the Guara Lula project, but as mentioned before, we do not expect this project to generate positive margin. To summarise on the outlook, we are very positive on the medium prospects, and tendering levels remain high, but we expect that the outlook in 2013 will be tempered by a few factors.

Before I conclude, a few comments on strategy. Our fleet enhancement program is on track. Our approach is to invest on the high specification enabler vessels that our customers need to execute the most technically challenging projects. As I already mentioned, we see significant medium and long term market growth ahead, as a result we're continually looking at how to equip the fleet to meet that market opportunity. Its too early to be specific on capex, but I'd broadly expect capex to remain at current levels for a few years as we seek to position the company to capture the market growth ahead.

Our new global enabler the Seven Borealis has successfully finished sea trials and is being mobilised to Angola where she will start operations on the CLOV project in December. I can announce that our new Brazilian PLSV which is currently under construction in Holland will be called the Seven Waves. I remind you that this vessel will enter service in 2014, its on time and on budget. We have also been working on a new build DSV project and are likely to commit with a shipyard in very near future. We continue to strengthen our global engineering and project management capabilities. Our engineering headcount has grown from 1600 at the start of the year to over 2000 today, and this is a key part of our differentiation vs peers.

Finally, a comment on the competition. We regard the Technip/Hereema agreement as neutral to positive; it further distances the big 3 in the industry from smaller service companies. We are not complacent about the upcoming players but believe that we are very well positioned: our financial strength, our large fleet of high specification vessels, our technology, and our engineering and project management resources continue to position Subsea 7 very well for growth.

In conclusion, the underlying trends in our markets are positive, the medium term growth prospects are good; we remain focused on building quality backlog; ensuring that we maintain a disciplined approach from a risk and pricing perspective.

And with this, we will be happy to answer your questions.

Goran Andreassen - RS Platou Markets

Yes, hi. Goran here in Platou. Just a quick question regarding your guidance for 2013. It's quite vague, and I guess a bit vaguer than what we expected. Would you say that you expect to manage to reach consensus for '13 in terms of EBITDA adjusted, which implies increase of 13% year over year? Or is that a stretch for you guys the way you look at '13?

Jean Cahuzac - Subsea 7

You know that every year, at the beginning of the year, we are cautious on regarding the visibility of '13. We are indicating that we are seeing progress on both revenue and EBITDA, which gives an indication. If we had concerns versus consensus, obviously, we would have to highlight it.

Goran Andreassen - RS Platou Markets

Okay, good. And then just two simple questions on Brazil, first, on the Guara-Lula project. Did you say that you have reached 50% completion?

And then the second question regarding Brazil is the fact that you're going to renew four day rate contracts in that region through '13. Could you say anything regarding what you expect to achieve in terms of potential increase in day rates on those contracts? And when will we see a material effect of that through the P&L?

Thank you. That's all from me.

Jean Cahuzac - Subsea 7

Regarding Guara-Lula, we're getting ready to start operation in Q2 offshore. We've reached 43% of operational completion. That's again in line with the schedule that we had in Q4 2011.

Regarding the PLSV renewal, we are in discussion with Petrobras on the commercial aspect of this renewal, and you will understand that we cannot give indication on what is our rate utilization. The market shows a shortage of supply of PLSVs in the future, so we are encouraged by this market for the future.

In terms of P&L impact, it will not have a P&L impact before the second part of this year, and there are different schedules for the renewal of this contract.

Goran Andreassen - RS Platou Markets

Okay, thank you.

Operator

Thank you. Your next question comes from the line of Tom Ackermans from Barclays. Please ask your question.

Tom Ackermans - Barclays

Hi, good afternoon. Just a couple of questions from me, please. First of all, if I look at backlog for 2014, you're at about $2.5 billion. That compares to $2.8 billion for 2013, a year ago. I realize that Q1 order intake has been very strong so far, so it doesn't look like it's too much of a concern for you, but could you perhaps give us your current thoughts on the growth potential after this year?

Then on Brazil, if I take the $52 million Guara-Lula charge out of the results, you have actually had quite a decent quarter. Again, if we think about this business slightly longer term, shall we expect margins to convert to the North Sea and AFGOM type margins over time?

And then a small check. If I look at your project progression chart, I think the Jasmine project in the North Sea has actually gone backwards from around 90% in Q3 to less than 80% in Q4. Is there anything to be concerned there, or has there just been an extension of the work scope?

Jean Cahuzac - Subsea 7

Thanks for the question. Regarding the backlog, as I said last year, I'm not looking at backlog on a quarterly basis. And the backlog has been significantly improving in Q4, and we have very good indication on what's happening in Q1 2013. So I'm not concerned about the backlog in the years to come. We are quite successful in a growing market to acquire the right project.

Regarding Brazil, as I mentioned before, there are two businesses; the way I look at it, two different types of businesses in… or business models, sorry, in Brazil. You have the PLSV, which is a good market and something where we are performing well with very limited downtime on our vessels, and that's reflected by the results. They are, obviously, the negative impact of Guara-Lula that I mentioned before.

I would be cautious on looking at Brazil on a quarter-by-quarter basis as we have a number of dry docks which are… which can impact some of the results on a quarterly basis.

Regarding the margin, we can get good margins on the PLSV vessels, which are day rate with some incentive on performance contracts.

Our approach for the large EPIC projects in the pre-salt is basically to say that we will not commit to projects if we don't believe that we can mitigate the risk associated with Brazil operation which is likely to require a different risk sharing profile that we had… compared with the one we had with Guara-Lula on Petrobras. So we are quite disciplined in the way we look at the future of these large EPIC projects, and we will not acquire a project if we don't believe that we cannot meet profitability similar to what we can do in other parts of the world.

Regarding the progress on Jasmine, I'm going to let John Evans comment.

John Evans - Subsea 7

Good afternoon, Tom. Yes, Jasmine is a project in the North Sea. There is no issue; it's just some changes in work scope we've agreed with the client, so our POC has gone back slightly. But we're coming to the end of that project, and it's been a good project for us.

Tom Ackermans - Barclays

Okay, great. Thanks. That's really helpful. Thanks.

Operator

Thank you. Our next question comes from the line of Phillip Lindsay from HSBC. Please ask your question.

Phillip Lindsay - HSBC

Yes, afternoon, gentlemen. Just a couple of general questions, really. The first one's on shareholder returns. Obviously, we've had $200 million or so as a special dividend, but you did have a buyback last year, so effectively it's half the return year on year.

I do understand that there's a convertible maturing in October. I think it's in the money at the moment, so you may prefer to have extra cash swashing around. But looking ahead, the free cash flow profile looks pretty good. It's improving over the next couple of years. So I'm just trying to get a sense of what the potential is. Would you consider instating an ordinary dividend, or a regular share buyback program?

That's the first question.

Jean Cahuzac - Subsea 7

Ricardo, why don't you answer?

Ricardo Rosa - Subsea 7

Yes. Good afternoon, Phillip. I think the status of our policy regarding shareholder returns has been set out in our press release, effectively, and the Board has indicated that we will continue to prioritize value-adding investment opportunities in our business, particularly with this growth market that we're seeing ahead of us.

I think the reiteration of a special dividend of $0.60 a share highlights our confidence in the business. And to the extent that it makes sense, and to the extent that the Board feels comfortable with it, we will look at opportunities for returning cash both in the form of additional special dividends, or potentially share buybacks.

There is not at this stage a commitment to any form of regular cash return to shareholders in view of the need to prioritize reinvestment in our business.

Jean Cahuzac - Subsea 7

But with the right return, and where it would makes sense.

Ricardo Rosa - Subsea 7

Yes.

Phillip Lindsay - HSBC

Okay, understood. The second question; you talk in the statement about shortage of qualified and experienced personnel. Presumably, a lot of that is engineers. And there's several other players targeting growth in offshore and subsea currently. I suppose they'll also be targeting your staff. Is this happening? Is it getting worse right now? What are you doing to prevent this?

And then a second part to that question would be management of risk in relation to that. So your order intake's been incredibly strong of late. If you're short of key personnel now, what comfort can the market have that you've got enough engineering resource to perform a thorough front end of these projects and therefore minimize issues during the execution phase?

Thank you.

Jean Cahuzac - Subsea 7

Yes, I think you're quite right when you mention that one of the biggest challenges of the industry is the people, and it will remain a challenge in the years to come.

The way I look at it, first is we've been very successful in recruitment of people, both through our normal, I would say, recruitment program, but also conversion program from other industries. And that has allowed us to increase the net number by 400, the number, of engineers in engineering and project management.

We have seen a decrease of attrition in the second part of 2012, and the 2013 first months are quite encouraging. And I think it comes from the fact that people see growth in the Company; they see more and more interesting projects, technically advanced projects. And I'm quite encouraged by these results.

Regarding the management of the risk which relates to personnel, we are very disciplined in the sense that before we actually bid a job we obviously identify the resources which are required. And there is a detailed analysis of what we do to prepare the project and making sure that we will be able to execute this project in an efficient manner. I can… I would like to ask John to give a bit of colour on that.

John Evans - Subsea 7

We do a lot of work on manpower planning, as Jean talks about, by discipline; different engineering disciplines and different project management disciplines that we need. And we run very detailed models of the workload coming off as the projects complete and how we start again.

So as Jean says, we're quite disciplined about which jobs we want to take and how we take them to make sure that we are resourced accordingly, and the turn in the last six months has been very positive for Subsea 7. We have retained a lot of people, and we do see that as a very distinct strategic difference between us and a lot of the new players here in that we have the resource base, and we're growing that base.

But as Jean says, we do invest very heavily. We've got over 100 engineering graduates starting this year. The conversion course for taking engineers from other industries is a very expensive and time consuming process, but at the end we get exceptionally well qualified and trained engineers for our business. So we also take our share of developing the pool as well rather than moving pool around between different players.

Jean Cahuzac - Subsea 7

When you look at our execution of projects, obviously, I am disappointed with the Guara-Lula project, as you can imagine. But when you look at the overall results of the Company in the last quarter in 2012, it showed the depth of expertise that we have, and basically demonstrates that outside of Guara-Lula we've been executing projects very, very well, because if not, we wouldn't be where we are. And I expect that that will continue in the future.

Phillip Lindsay - HSBC

Okay, understood. Just a very quick follow-up, if you don't mind. Just on the PLSVs in Brazil, I know you're trying to renew, I think four you said in the second half of this year. I think you've got six or seven in total on long-term charter.

There will be a lot of new tonnage coming in over the next three to four years. Does that impact your position here in terms of some of the older tonnage? And if so, will you be able to find a home very easily for the older vessels?

Jean Cahuzac - Subsea 7

Well, I think the way I look at it is we are, as we are doing for the rest of the fleet, continuously improving the quality and the specification of the vessels. So some of the new vessels that we are building… if you take the Seven Wave, and if we are successful, if we are to be successful on this new run of tenders, this new vessel will be the vessel that Subsea 7 will operate in five years, 10 years, 15 years, and we will retire some of the older vessels. If I take the Lochnagar, for instance, it's a vessel which comes to the end of her life.

So I'm not concerned with the additional capacity that you see coming to Brazil for two reasons. First, there is a limited number of companies who are actually bidding for this PLSV job because it also required a strong back-up to operate them successfully. It requires a strong Brazilian presence and some operational and engineering capability. There was only three bidders in the last round of bids.

And when you look at the program of Petrobras and what they need not only for pre-salt but post-salt, I think there is a strong possibility that there will be a shortage of PLSVs rather than over-supply of PLSVs, in the years to come.

So it's a business that we like. We have demonstrated and we are comfortable that we can make the right profitability in this business.

Phillip Lindsay - HSBC

Right. Thanks very much, guys.

Operator

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

Ryan Kauppila - Citigroup

Good afternoon. I appreciate the granularity you've already given on Brazil, but in a statement on the current provision, you mention a commercial dispute with Petrobras. Have you noticed any change in the Brazilian operating environment for the worse or for the better with the new management, with some of the cash flow constraints that we're seeing in the press and mentioned by Petrobras?

And then secondly, again on Brazil, on the ICMS tax dispute, if you could just highlight what exactly the ruling was this quarter and how that whole process we should expect it to evolve from here.

Jean Cahuzac - Subsea 7

Yes, I will take the first part of the question and Ricardo will comment on the ICMS. Working in Brazil is a difficult environment, and one of the reasons is the Brazilian administration constraints which are very specific to Brazil and very different from other parts of the world when you talk about the importation rules, when you talk about a number of other issues.

And we mentioned that we've taken in the $52 million, taken into account a commercial dispute that we have with Petrobras. I cannot comment specifically on this dispute, as you can imagine, because we are in the middle of the negotiations.

But I would say that the general business environment in Brazil has not really improved on the pre-salt lately, and that's why we have to be very disciplined in making sure that when we commit to something, if we commit to a new project, it's with a level of risk which is similar to what is available outside of Brazil. That's not always easy, so we'll see what future will show. Regarding ICMS, Ricardo?

Ricardo Rosa - Subsea 7

Yes, good afternoon, Ryan. As you know, in Brazil, one of the challenges of operating there is the plethora of indirect taxes and the relatively aggressive posture that the authorities adopt in assessing companies for infringements, or alleged infringements of the regulations there. So having a number of ICMS cases that we are managing is not unusual for any company operating in our sector or others.

The recent developments are ones that don't cause us any additional concern. We have a number of cases outstanding. They're being heard at what we call the administrative level of the tax authorities, and they will tend to find in favour of the inspector.

After this initial ruling, there are a number of levels of appeal within the judicial system, and we are working actively to defend our position there. And our lawyers who advise us on this remain confident that ultimately we should be successful. This being said, the whole process of working a case through the courts in Brazil can take a very long time, so I cannot tell you today when we believe these issue will be resolved.

Jean Cahuzac - Subsea 7

But it's likely to many and many years.

Ryan Kauppila - Citigroup

Okay. And just a quick follow-up on the first. It's sort of the recent Petrobras, it looks like shift to flexible risers for the next developments. I know you were tendering for the others. Was that a process that caught you off guard, or is this something that you could see happening under the surface?

Jean Cahuzac - Subsea 7

No, it didn't take us by surprise. But, first, I'm not sure that I would share fully your view on what Petrobras said regarding the development of pre-salt. They obviously indicated that the next two fields, or three fields, would be developed with flexible. They also indicated to us that there will be fields developed with rigid pipe solutions, and that should be clarified in the months to come. So no, it was not a big surprise for us for the next two fields.

What I find… one point I want to highlight is that even when the decision is to develop some fields with flexible pipe, it's not bad news for Subsea 7, as the last contract that we just signed with Seven Seas shows. The $300 million contract is, in fact, flexible pipe installation that we are doing on behalf of Petrobras, part of this job being on lump sum, and it's a free placement from Petrobras on the flexible pipe.

And I think one of the strengths of Subsea 7 worldwide, not only in Brazil, is that we can provide whatever technical solution is the best at a given time for the operator, from rigid pipe lay to flexible pipe. And that gives us a lot of flexibility in the way we look at the market.

There will be more rigid pipe development in pre-salt in my opinion. But, again, we will take a very prudent approach for these projects, especially when supply chain is deeply involved, like it is on Guara-Lula, so that the level of risk and the expected profitability is in line with projects outside of Brazil. And that may mean that our backlog may take some time to grow on the pre-salt. If it's what it means, it will be okay with me. We'll do it when we're ready.

Ryan Kauppila - Citigroup

That's great. Really helpful. Thanks.

Operator

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

Rob Pulleyn - Morgan Stanley

Thank you, gentlemen. Most of my questions have been answered, but just a couple extra, if I may. First of all, could you give us some indication of what sort of timing you see for some of these large West African contract awards? But also, and of equal interest, what's going on in the Gulf of Mexico and potentially a pickup in activity there?

And then secondly, I know you've already mentioned and given a lot of colour regarding the first quarter and obviously the impacts of North Sea weather and dry docking. Could you give us maybe a little bit more of a steer relating to the exact movements of those vessels out of the North Sea and when that should impact, and how we should think about margins within the first quarter?

Thank you very much.

Jean Cahuzac - Subsea 7

Regarding the first question on Africa, as you know, it's always very difficult to put an exact timing on the contracts in Africa. One of the points that I may start with is Nigeria. The next [live] contract probably to be awarded is Egina. Not sure that we are well positioned for this project but the future will tell, but I'm not sure that we are. But Egina could be the next one to be awarded to market in 2013.

There is still the issue of the PIB which probably will delay further announcement of deepwater project in Nigeria.

We've been quite pleased to see Erha North being awarded to us in the first part of 2013, and that shows that things are moving.

In the first part of the year of 2013, we expect that TEN for Tullow in Ghana will be awarded to market.

There is some… a number of big projects which are being tendered, in particular Total Kaombo, Block 32 in Angola, which is a very, very large project that we are bidding in consortium with Saipem.

We expect that this project will be awarded to market in the second part of '13. And then there are other projects of different sizes in West Africa. So I would say the momentum is still there. There is always a question of timing for some of the projects, but outside of Nigeria, we are seeing things going in the right direction, but timing is always difficult to predict.

Regarding the Gulf of Mexico, we're seeing an improvement of activity with different type of models. There is one of the large projects, the EPIC project, which will be awarded to market, I think in '13, will be the Hadrian project for Exxon. But we see more projects coming to market, and we see this trend to continue in the years to come. Operation on these projects may be post… will be post '13, and in some cases post '14.

And then we see an increase of activity in Mexico. We got our first project for Pemex with the Borealis, and there are additional prospects and projects which will be awarded to market later this year and in '14. So this part of the world is improving.

Rob Pulleyn - Morgan Stanley

Thank you. And just on when we're thinking about 1Q margins, so we don't overestimate the profitability in the next set of results, is it going to be substantially weaker in the North Sea than the first quarter last year?

Jean Cahuzac - Subsea 7

No, in terms of utilization, we're going to see a lower utilization for Subsea 7 and for the market that we've seen… compared with what we've seen in Q1 '12. We're back to historical good numbers. It's not that it will be lower than '12.

In terms of the margin of the North Sea, we see the margin going in the right direction because of the activity there and the tenders.

There is one point to take into account when you look at overall margins of big projects is a trend towards EPIC large projects that we start to see in the North Sea. And as a reminder, when you have a large project and you have a significant part of this project, which can be 30%, 40%, 50% which is procurement, our approach for procurement is to actually mitigate the risk, share the risk with the operator, especially in today's market, and therefore go with lower margin on procurement. So the profitability of the non-procurement operation is going in the right direction, improving.

When you have large projects, it can be tempered because on the procurement side you have lower margin. But overall it's good; it's encouraging.

One other point that I mentioned in my comments is that the Ocean will not be in the North Sea in the second part of 2013 because she will be operating in Guara-Lula and, therefore, there will be no push through of the Ocean in the North Sea during the 2013 summer.

Rob Pulleyn

Okay, thank you very much.

Operator

Thank you. The next question comes from the line of Christyan Malek from Nomura. Please ask your question.

Christyan Malek - Nomura

Hi, good afternoon, gentlemen. Two questions, if I may. First, I just want to understand why in Q4 '11 when you provisioned for the number, what did you miss then that you revise now? Because having revised again and understand the moving parts, I guess the fear is that you do it again in six months time having recognized other issues. So what's changed? And if you can walk us through that and why you don't think you'll do it again.

And then the second question relates to day rates. Can you quantify or talk about the uplift in the day rates that you're renewing on the current vessels? What are they currently? Where are they going to? How much of your business is also a day rate business, please? Thank you.

Jean Cahuzac - Subsea 7

Okay. To answer the question on Guara-Lula, where are we on Guara-Lula and why did we… took this additional hit, the first comment I would like to mention is that a part of that, and a significant part of that, is a commercial dispute that we're having with Petrobras. And that's the kind of thing that you cannot really predict. So it's something which emerged late Q4 2012 that we didn't have in the radar screen in 2011.

The other thing is that we are starting operation now, and we have kept the contingencies that we usually have on project prior to start operation because it's a risky part of the business. And as we said before, you actually release contingency once you have done the operation. The project being at a loss, any bad news is going to hit the bottom line, and we had some challenges with some suppliers that we've taken into account.

So today when I look at the overall project, we're starting the critical phase of… or one of the critical phases of the project, which is the last phase of the project or operation. And what we have in the number is our best estimate, like we have on other projects.

Ricardo Rosa - Subsea 7

Before Jean starts answering your question on day rates and vessels on the day rate contract, I'd just like to add two comments to his explanation, the first one with regard to the commercial dispute. Clearly, we have taken a prudent approach, but this does not mean that the issue is not under discussion with Petrobras. And we will work toward some form of resolution, but at this point in time, we're not in a position to conclude that we will be successful at that.

The second point I want to make is just to clarify Jean's comments about looking at risks and associated provisions and contingencies. This is something that we do every month. We evaluate the risks associated with each project in the light of what we know at the time we're doing the valuation, and we will assess the impact on the margin at that time.

To the extent that that risk is wholly mitigated subsequently, we will make the necessary adjustments to our contingencies and to our margins, but I want to emphasize that this is a robust and ongoing process.

And with that, I'll hand back to Jean to talk about the day rates.

Jean Cahuzac - Subsea 7

Talking about the day rates, I already commented on the PLSVs. We have some vessels in the North Sea which are on day rates, some diving operation and some light construction vessels. But I would say the core of our fleet, the majority of our fleet, they are not on day rates, they are on projects.

So I would say altogether, we're seeing a trend going in the right direction for the vessels that we have on day rates, but we are a project company and most of the revenue doesn't come from day rates outside of the PLSVs. So it's… I look at project profitability more than day rates.

Christyan Malek - Nomura

Sure, thank you. And just following up just back on the first question, I understand the commercial disputes. In terms of the contingency management, has something structurally changed in the last 12 months that would pre-empt and understand future contingencies? Because clearly, what's happened is that you've had to exhaust more than you thought you had to and, therefore, that's created a further loss.

So what's changed systematically within the business that will pre-empt this sort of thing happening again over a timeline of 12 months?

Jean Cahuzac - Subsea 7

Well, as I said before, we have this average of the project. We are closer to the end of the project, so we have a lot of things which are behind us. We've made a pretty good project and made good progress on the project, in fact, with the delivery on time of (inaudible) [Q4], the schedule of the buoy what… where we are on the risers. So the closer you come to the end of… the execution of the project, the more comfortable you are. But we still have to do the operation.

So as any project, there are risks associated with the operation which are not Brazilian risks in that case, which are operational risks. I would say that, and we believe that what we've put in the number, reflects all that.

Any project has a risk until it's completed. It's true for Guara-Lula. It's true for some other projects. I think experience on… when I look at the 147 projects that we are running in parallel encourage me that we know where we are.

Christyan Malek - Nomura

Right. Thank you very much.

Operator

Thank you. Our next question comes from the line of Christian Diesen from Pareto. Please ask your question.

Christian Diesen - Pareto

Hi, there. A question on the CapEx. The operating CapEx you're guiding on, is that what we should assume as being maintenance CapEx going forward? Or how would that split on the $800 million you've guided for the next five years, be in terms of maintenance and expansion?

Ricardo Rosa - Subsea 7

Yes, good afternoon, Christian. I indicated that our guidance for 2013 was for operating CapEx, or maintenance CapEx as you referred to it, of between $425 million and $475 million. Now embedded in that figure is a number of investments. You obviously have the dry docking of the vessels offshore, but you also have equipment that is needed to enhance or the existing fleet, and also includes the investments that are required on shore-based facilities, be they spoolbases, or offices, or potentially investments relating to local content.

But overall, if you're looking for guidance over a multi-year period, I think it's reasonable to assume that that is a reflective… given current levels of activity, it's reflective of our continuing needs on the CapEx side.

Christian Diesen - Pareto

Okay. And then on the North Sea, given the order intake we have seen now for the past couple of years, could you update us a little bit on the pricing environment there? So are you seeing further tightening and improved pricing? And what's the effect of… call it newer, smaller players getting part of the work?

Jean Cahuzac - Subsea 7

Well, we're seeing improved pricing in the North Sea, both in the Norwegian and the UK sector. Again, as I said before, when you look at some larger projects which include procurement, the margins don't necessary increase when you have a significant part of a procurement at a lower margin but lower risk.

Talking about the competition, there is more competition, not only in the North Sea but also outside of the North Sea, and that's what you would expect in the growing market. So we are seeing more competition. The differentiator that we have comes from our engineering project management capability and the size of the fleet which give us a lot of flexibility.

So I don't… I'm not… I think we have to take that into account, but I think Subsea 7 is very well positioned in the market in spite of some increased competition. And I would say that most of this competition comes from the lower end of the market and actually targeted small projects which are handled with smaller vessels, which is not the really the market we are focusing on.

So I would say I'm cautiously… not cautiously, I mean I'm optimistic that we will continue to differentiate ourselves in a market where we see more competition. It's not a big concern for me, but it's… we have to acknowledge we have more competition, yes.

Christian Diesen - Pareto

Thank you.

Jean Cahuzac - Subsea 7

I think we can take one more question before we close.

Operator

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

Andrew Dobbing - JPMorgan

Yes, good afternoon. You've mentioned supply chain risks. Can you give us a bit more detail on whether these are currently coming from the timing of awards for new projects, or as in the case of the project in Brazil, the Guara-Lula project, if it's putting risk on profitability contracts currently under execution? So I realize it's perhaps most related to Brazil, but are there other projects which are ongoing where you can see risks of this supply chain?

Thank you.

Jean Cahuzac - Subsea 7

Yes, I think when I look at supply chain and further to discussion that in fact I had recently with a number of our customers, our clients, I think we all have the same view. The constraints on supply chain is everywhere on the subsea equipment and some other equipment on a worldwide basis, from large company suppliers… from large suppliers and smaller suppliers. But I think it's something we have to take into account, all of us.

In some cases, you can postpone some of the projects of the operator without having an impact on Subsea 7, but some projects are pushed to the right.

The costs are going up, and that cost that we pass to the operator, but it increases the cost base for the operator, which is something which is a factor that we have to acknowledge. And the risk associated with the supplier exists on all EPIC projects, and that's why we need to have the organization that we have, the resources that we have to assign to mitigate this risk.

In the specific case of Brazil, the $300 million project that we signed is with our supply chain. It's free placement from Petrobras, and it's the type of project that we know how to handle in Brazil.

But supply chain is a challenge for the industry. It's a challenge for Subsea 7. I think it's something that we are handling rather well, but it's a risk which exists and we have to acknowledge it also.

Andrew Dobbing - JPMorgan

On most of these projects, you're committing to a delivery date, I guess, completion date. How well… how able are you to kind of insulate yourself, or protect yourself against equipment being delivered late?

Jean Cahuzac - Subsea 7

You are never covered 100%. You cannot protect yourself 100% on these projects. That's why you have actually contingency built up in the project, and also a back-up solution.

The biggest impact of delay of some equipment on some of the projects is the impact that it has on the [sequence of utilization] of the vessels. And then on a lot of projects that's where the risk are.

We can mitigate somewhat this risk because of the size of the fleet and the fact that we can swap vessel, etc., but you will never eliminate completely this risk. It's a risk which is part of our business, and it's a risk that we need to manage.

Andrew Dobbing - JPMorgan

Thanks very much.

Jean Cahuzac - Subsea 7

Well, I think we've come to the end of our session. I'd like to thank everybody for the participation and look forward for further discussion after our Q1 results in 2013 in a business which is definitely quite encouraging, I would say.

Thank you.
