SUBSEA 7 S.A.

First Quarter 2014 Results Conference Call Transcript

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Speakers:

Jean Cahuzac, Chief Executive Officer
Ricardo Rosa, Chief Financial Officer
John Evans, Chief Operating Officer
Keith Russell, Investor Relations Director

Moderator: Hello and welcome to today's Subsea 7 first quarter 2014 results conference call. Throughout this call all participants will be in listen-only mode and afterwards there will be a question and answer session. And just to remind you, this call is being recorded. Today I am very pleased to pass you over to Keith Russell, the Investor Relations Director. Keith, please begin.

Keith Russell: Thank you Hugh. Good afternoon, welcome everyone to this conference call covering our quarter one 2014 results for Subsea 7. Here with me on the call we have Jean Cahuzac, our CEO, Ricardo Rosa, our CFO and John Evans, our Chief Operating Officer. The full press release of the results can be found on the Investor Relations section of our website, along with the presentation slides that we'll be referring to on today's call. The structure for the event will be for Jean and Ricardo to go through some comments on the slides and following which, as usual, we'll be pleased to take your questions, together with John Evans.

Before we start the presentation, though, I'd like to draw your attention to slide number two on the webcast, which is the statement of forward looking statements, in the context of this presentation and a similar disclosure can be seen in the full press release. As we'd like to limit the duration of the event to about one hour, as we did last time, I'd ask you, please, to limit your questions initially to two per person. And obviously we'll come back for additional questions if we have time. I think that's the fairest way for everyone.

So, with that brief introduction, I'll turn it over to Jean.

Jean Cahuzac: Thank you Keith and good afternoon to everybody. I will start by summarising the main elements of our first quarter 2014 performance before handing over to Ricardo who will cover the financials in more detail. I will then conclude with some observations on the market and the outlook for our business for the balance of the year.

We have had a solid start to 2014 and we do reiterate our previous guidance for the year. Let's look first at the highlights for the quarter on slide three. The financial results for the first quarter showed an increase in all key metrics, compared to the first quarter of 2013. We had good execution across our project portfolio and made significant progress on a number of major projects.

The *Seven Waves*, the first of four new build PLSVs in our current vessel investment programme, finished equipment trials in the quarter and is now en route to Brazil, where she will commence operation for Petrobras in early May. She was built to our cost estimates and we commenced operation on that contract with Petrobras more than three months ahead of the initial plan.

Group revenue increased 14% from the prior year quarter, with each Territory improving except for the North Sea and Canada, which had the *Seven Oceans* and *Skandi Acergy* deployed out of the Territory in Q1 2014. The financial turnaround of the Brazil territory is on track, evidenced by its moving back into profit with a net operating income margin of 8% and we expect the trend for improving profitability to continue as the year progresses.

We achieved a number of key milestones in executing the Guará-Lura northeast project in Brazil in the quarter. I will provide more information on the project a bit later on the call. While spending on our vessel construction programme continued at a relatively high level, our strong financial position allowed us to continue executing our $200 million share repurchase programme.

Global vessel utilization was 79% in Q1, which is comparatively high for the time of the year and was 5 percentage points higher than the first quarter of 2013. Our new vessel construction programme continues to progress well and in line with cost estimates and – in the case of the *Seven Waves* – ahead of schedule, as I mentioned previously. The order backlog peaked at $11.6 billion at the end of the quarter. This backlog is only marginally down from the end of 2013 order backlog. Order intake was augmented by a high level of scope changes in existing SURF contracts and client commitments under Life-of-Field agreements.

We announced contract awards in the quarter: including the BC-10 SURF project and i-Tech remote intervention service contracts, both in Brazil, and the Hebron Project in Canada.

Turning to slide four, which provides further detail on our backlog – as I mentioned we ended the quarter with an order backlog of $11.6 billion, about $200 million below the record high at year end 2013. This provides an excellent base on which to build revenue in 2014, as well as future years.

Before turning over to Ricardo, I would like to update you further on the Guará-Lula project in Brazil. Good operational performance and favourable weather conditions have allowed us to make significant progress since our last update to the market in early March. To date, three buoys have been successfully secured in place and commissioned. The fourth and final buoy has been submerged to depth and final installation operations are ongoing. To date we have also successfully installed eight of the 27 risers that we have to put in place. Our plans for completing the project remain unchanged, with the four buoys installation expected to be completed by Q2 and all risers by year end.

With that brief summary, I shall pass you to Ricardo who will talk you through the numbers.

Ricardo Rosa: Thank you Jean and good afternoon everyone. Jean has given you an overview of the quarter and I will now provide more detail on the consolidated income statement and the territories' operating results for the first quarter of 2014.

Let's first look at highlights of the income statement on slide five. First quarter revenue, at $1.67 billion, was 14% above that recorded in the same quarter of 2013. Compared to the prior year period, activity levels were clearly higher in the Africa, Gulf of Mexico and Asia Pacific Middle East territories, slightly higher in Brazil and somewhat lower in the North Sea and Canada. First quarter net operating income was $166 million, up from $154 million in the first quarter of 2013; reflecting the impact of higher activity levels on adjusted EBITDA in the quarter.

This positive trend in net operating income was partially mitigated by increases in depreciation and administrative expenses. Nevertheless, I want to emphasise that underlying administrative expenses decreased by $11 million from the prior year quarter after adjusting for the release of a merger-related provision. After deducting net finance costs of $1 million and including net foreign exchange gains of $8 million, income before taxes was $173 million, an increase of nearly 10% from the prior year's first quarter.

The $36 million tax charge for the quarter was equivalent to an effective tax rate of 21% and was reported net of the benefit of certain discrete items. Excluding these discrete items, the underlying effective tax rate was 27.3%.

Net income for the quarter was $137 million, resulting in diluted earnings per share of 41 cents, an improvement of 4 cents per share, compared with the first quarter of 2013. This improvement is partly attributable to the reduced weighted average share count, which is down approximately 20.4 million as a result of both our share repurchase programme and the partial redemption for cash of the $500 million convertible bond that matured in October 2013.

I will now turn to slide six and the territories' operational performance in the first quarter. Africa and Gulf of Mexico delivered revenue of $669 million for the quarter, up 27% compared to the prior year period; while net operating income at $77 million gave rise to a net operating margin of 11.4%, down 4.9 percentage points on the prior year quarter's margin of 16.3%. The reduction in the territory's margin was due to the phasing of various projects and additional costs incurred on the Line 60 and Line 67 projects in Mexico which have arisen from changes in the project schedule that are currently being discussed with our client.

Asia Pacific and Middle East delivered revenue of $205 million; an increase of $81 million on the prior year quarter, as activity rose significantly – owing largely to the execution of the heavy lift and tie–in project on the Gorgon field in Australia, which was in an offshore phase throughout the quarter. Net operating income was $11 million, down from $15 million in the prior year's first quarter. The decline in profit margin was caused mainly by the timing of cost recognition on projects in Australia, partly offset by a positive contribution in the quarter from the SapuraAcergy joint venture in relation to the completed Gumusut project, offshore Malaysia.

In Brazil, revenue increased by $14 million from the first quarter of 2013 to $231 million. The territory recorded a net operating income of $19 million, compared to a net operating loss of $22 million in the comparable quarter of 2013. The turnaround in profitability was due to high utilisation of the PLSVs and successful completion of the Sapinhoá and Lula NE project. The first quarter of 2013 was impacted by a loss resulting from the cancellation of the offshore scope of the UOTE in the post-salt and the *Seven Oceans* being in dry dock.

The North Sea and Canada territory generated revenue of $558 million, down 6% on the prior year period, while net operating income amounted to $73 million, a decrease of $12 million or 15%. The reduction in revenue and corresponding profit compared to the first quarter of 2013 was primarily due to the recognition, in the prior year period, of the settlement related to the cancellation of the Fram project and reduced activity in Canada. Vessel utilisation was in line with the prior year quarter, benefitting from continued high levels of Life-of-Field activity, while revenue was impacted by the absence of the *Skandi Acergy*, which was redeployed in Australia during the first quarter of this year.

Lastly, the corporate segment incurred a net operating loss of $14 million, reflecting a negative contribution from the Seaway Heavy Lifting joint venture owing to the continuation of the life extension work on the *Stanislav Yudin*, in dry dock. The dry docking of this vessel is now complete and the vessel will return to work in this second quarter.

Slide seven provides supplementary details on the income statement which I have largely covered in my comments so far; except for net finance costs, which were significantly down on the prior year period due to the lower debt burden and the higher levels of interest capitalised on vessels under construction.

Turning to slide eight, which provides an overview of cash flow over the first quarter of 2014. Net cash generated from operating activities totalled $257 million in the quarter, with a further decrease in net operating assets of $70 million in the quarter making a significant contribution. There has been no deterioration in operating receivables since December 2013 and operating liabilities increased $73 million due, in part, to the timing of milestone payments for vessels under construction.

Net cash flow used in investing activities amounted to $271 million, which included $288 million of capital expenditure, mainly on the new build vessel construction programme. Net cash used in financing activities was $73 million, which included $71 million spent on repurchasing shares under the current $200 million share buy-back programme.

As reflected on the summary balance sheet on slide nine, we finished the quarter with a cash and cash equivalents balance of $538 million, a reduction of $112 million since the start of 2014, reflecting the needs of our capital investment programme and our continued commitment to returning cash to shareholders. Total borrowings at the end of the first quarter stood at $915 million, a slight increase of $4 million from the start of the year, attributable to convertible bond accretion.

I will now comment on the financial guidance for 2014, provided on slide ten. Essentially, it hasn't changed from what we communicated to you on 5th March this year and the guidance is repeated here for your convenience. The only minor difference is a lowering of our guidance on the expected effective tax rate for the full year 2014 to between 27% and 29%, down from between 29% and 31%.

This reduction reflects a change in our forecast mix of jurisdictions in which revenue and profit are expected to be generated. As we mentioned on the last earnings call in March, we do anticipate, later in the year, drawing on part of the $100 million cash element of our $600 million revolving credit facility, as well as the three committed bilateral revolving credit facilities totalling $300 million which we put in place in 2013.

As evidence of our continued commitment to returning cash to shareholders, through the 25th April this year we have spent $176 million to repurchase approximately 9.4 million shares under our current $200 million share repurchase programme that commenced in October last year. In addition, as previously announced, the board of directors is recommending that shareholders approve a cash dividend of 3.6 Norwegian Kroner per share in respect of 2013, which – if approved at the next annual general meeting on the 27th June – is expected to be paid on the 10th July this year.

On slide 11 we have provided a refinement of the actual to date and future expected capital expenditure relating to the vessel new build programme. I am pleased to report that this programme continues to be executed in line with our cost and timing expectations and in the specific case of the *Seven Waves*, ahead of our initial schedule. Details of the six vessels can be seen on slide 12, which was reviewed on our last call and the target dates for them to start operations have not changed.

In closing, I draw your attention to slides 35 and 36 in the appendix, which summarise the various vessel divestments we have completed since the start of 2011, as well as the long-term charters we have not renewed. These slides highlight our strategy to upscale and modernise our vessel fleet continuously while maintaining a disciplined approach to capital investment.

I will now pass you back to Jean to comment further on the markets and our outlook.

Jean Cahuzac: Thank you Ricardo. Let’s turn to slide 13. Tendering activity is high worldwide. However, the timing of some large project awards remains uncertain. Looking at our core business segment, in SURF we see a strong tendering activity in the North Sea, Africa, Gulf of Mexico and Asia. The money in life-of-field remains very strong too, particularly in the UK sector of the North Sea. In conventional we are seeing a short-term lower tendering activity. Admittedly this is temporary, but it remains difficult to say when this market will start growing again.

I would like now to offer some comments on the market and the outlook by territory for the remainder of this year. Let’s turn to slide 14. Firstly, Africa and the Gulf of Mexico – in West and East Africa tendering of SURF activity is at a high level and has, in fact, increased since the beginning of the year. This is encouraging for the future. We are confident that this Territory will continue to offer substantial opportunities for subsea contractors with our particular capabilities.

However, as we have said before, the timing of awards for some projects is uncertain, particularly in West Africa. Owing to the time it takes to move from tendering to award to execution, we are cautious about our revenue expectation in this territory for the second half of ’14. I also mentioned earlier the slowdown in the shallow water conventional market in Nigeria. We are presently experiencing, as I said before, a lower level of tendering activity owing to local administration issues and expect the situation to continue into the second half of this year. It is a temporary situation that we are monitoring closely.

We are tendering for a wide range of projects in the Gulf of Mexico for both SURF and long-term Life-of-Field awards. The operating environment remains competitive and challenging in this part of the world but is improving.

In APME we are seeing an increasing number of potential large SURF projects, particularly in South and South East Asia and tendering activity is currently high. The Gendalo Gehem project in Indonesia, which has already been tendered, is an example of a major field development in the Territory. We expect have a better idea of the project status and the market award in Q3.

Australia continues to be active and we are intensively engaged on the Gorgon project this year. However, operators continue to struggle with cost challenges, making the outlook uncertain for large SURF projects. On the other hand, we do expect to see an increasing demand for Life-of-Field services as the province matures.

Turning to slide 15 – in Brazil, the demand for PLSVs by Petrobras continues to increase. Including our new builds, we expect to have at least nine vessels dedicated to this activity by the end of '16. We continue to tender for a range of small and medium-sized SURF projects also, following our recent success in winning the BC-10 contract. Obviously, the successful completion of the Guará-Lula project remains our top priority in this Territory.

Let's turn to slide 16. In the North Sea and Canada, there are a number of significant SURF project that we expect to be awarded to market this year, although the exact timing – the exact quarter – is uncertain. The longer term prospects remain good, particularly with developments in the harsher climates of Norway and Canada. And one point to highlight is we continue to attract the interest of operators in our Bundle technology offering. As I mentioned before, demand for Life-of-Field-services continues to be strong and we expect this trend to continue. Just a reminder – the *Seven Oceans* and the *Skandi Acergy* will be deployed outside the territory throughout 2014 and this has an impact on the territory revenue this year.

In Canada we announced, at the beginning of the quarter, the award for work on the Hebron field that will be managed from our St. John's, Newfoundland office.

Turning to slide 17 – I've been talking for the last few months of the oil operators focus on optimising their cash flow and the cost of their projects. We are seeing some softening in pricing in the fabrication and equipment market and that will allow us to pass savings to our Clients. But, more importantly, it's through an early engagement with the oil operators that we are also able to propose optimal and cost effective solutions for their projects. And what we are seeing is that this approach creates new opportunities for Subsea 7, as our engineering capability, the size and flexibility of our fleet and the new technologies that we can propose are clear differentiators.

Turning to slide 18 – and for the summary of the quarter – so we have made a solid start to '14, with clear growth in revenue and profit from the same period in '13. Backlog remained strong at the end of the quarter, largely driven by a high level of scope changes to existing contracts and further commitment under existing Life-of-Field contracts. The financial turnaround in Brazil is on track, as shown in the Territory results for the first quarter. And our financial guidance for the full year 2014 remains unchanged – for increasing revenue and a moderate increase in Adjusted EBITDA from the underlying level achieved in 2013, excluding the Guará-Lula losses. The high level of tendering activity across the Territories bodes well for the future. In the near term, however, the lack of transparency over the timing of some SURF awards and the current slowdown in conventional work in Africa continues to make it difficult to provide guidance for 2015 at this early stage of the year. We will communicate our outlook, as we always have, as soon as it has become clear.

And now Ricardo, John and I will be pleased to answer your questions.

Moderator: Thank you. Ladies and gentlemen, if you wish to ask a question, could you please press 0 and then 1 on your phone keypad now – if you haven't already – and you'll enter the queue. And then after you're announced, just ask your question and if you find your question has been answered before it's your turn to speak, just press 0 and then 2 to cancel.

And the first question is from Asad Farid of Berenburg. Please go ahead with your question, your line is now open.

Asad Farid: Hi, good afternoon. Congratulations on a good result for the first quarter. I have two inter-related questions linked to your backlog. If I remember correctly, you are guiding for backlog to decline overall in 2014. So, given that backlog has declined for Subsea 7, can you please give some colour on how much does your current backlog support fleet and asset utilisation in 2015 and ’16. And secondly, because of backlog erosion, under how much pressure are you to win more work? Because we have been hearing from your peers that the margin profile is not good for projects such as Gendalo Gehem project in Indonesia, on which Subsea 7 is in a leading position to win. Thank you.

Jean Cahuzac: Right, thanks for your comments. We’ve been pleased with the backlog in Q1, which shows a marginal decrease, but also shows our ability to extend the work on projects that we have, in particular in life-of-field and on smaller projects that we don’t announce when they are awarded. That basically shows that the confidence that the clients have on our ability to deliver and to mitigate their risk and optimise their costs remains very, very high.

The question on the backlog and the trend in the quarters to come in fact comes from the – I mean it relates to the uncertainty that we have on the timing of award of projects. What is clear is that the level of tendering is very high and in fact it has even increased in the beginning of the year in Africa. So that’s encouraging, but it makes things very difficult to actually predict where we will end up at the end of the year.

Regarding the Gehem-Gendalo project – there is some uncertainty on the timing of Chevron and when they will get all necessary approvals for launching these projects. And we are cautious: we are monitoring the situation and we see what happens there. The only thing I would say on Gehem-Gendalo is that we bidded the project with a very well-balanced risk profile with a joint venture partner in who we have full confidence and I am pleased with the margin on this project. If we were to win it – and it’s known from the market that we are the lowest bidder, so it’s encouraging.

Asad Farid: Okay.

Moderator: We now go to the line of Mick Pickup at Barclays. Please go ahead, your line is open.

Mick Pickup: Good afternoon, gents. It’s Mick, I’m going to have to learn to sound my name properly. Couple of questions if I may? Firstly – and it’s a question I asked Technip on their call last week – but, during Q1 obviously three major awards out there in the market, Technip have won all three of them. A couple of those I would have thought you would have been well placed for. So can I just ask what you think’s going on in the market at the moment? Why those projects, none of them came your way? And hopefully it’s not an erosion of market share.

And secondly, on Guará-Lula – well done on getting three in and the fourth submerged – are you happy with me saying that once you’ve got those buoys installed that’s the major risk out of the way? Or you still think there are issues around the riser installation we should be worried about?

Jean Cahuzac: Okay. Thanks Mick. I mean, to come back on market share and what happened with some of the competitors – firstly I am very confident that we will continue, as we have done in the past, to win our share of the market. I mean, clearly, in terms of competitiveness, in terms of the technology that we propose, we are one of the top-tier players and we haven’t seen any change there. So I’m quite optimistic that we will maintain market share.

You are referring to projects – I mean, on the three projects that, I think, you have in mind we didn’t bid on one of them – in Asia – so it was not a surprise that we didn’t win. Kaombo, we lost – we lost Kaombo. And I think we lost on price and you know, it all depends what… Particularly when you have this very large project it can have an impact on the backlog in a temporary manner on a given quarter, but there are other projects to come. And as I said before, we will win our share and things will be more balanced. So I don’t see, really, a change there in terms of the competitiveness of Subsea 7, compared with our main competitors.

Mick Pickup: Okay.

Jean Cahuzac: Regarding Guará-Lula – I would like John to comment on where we are on the operation and why we've made the progress that we've made since the beginning of the year.

John Evans: Yes, thank you Jean. And Mick – your question was around how far we were going with the risk profile. I think the important thing to note is we made a commitment at the end of the fourth quarter to bring an additional asset in – to use the best of the summer period that we're in at the moment to get these buoys installed – and I think that's paid off for us. We do expect to get these buoys concluded this quarter.

In terms of the riser work, we have done eight out of the 27. That's going well – we're comfortable with how that is going. So obviously as the project is progressing, the risk profile is coming down. We still have another winter to go through, in terms of getting the risers in, but we've factored that in and we're comfortable that, by the end of this year, we should be getting to the back end of this project as we've outlined here.

So, overall, the decision to put more assets in, to liquidate the work, to get us through the window of opportunity that we had has proven to be a good choice for us. So we're comfortable with where we're at here and we have to liquidate the rest of the work going ahead.

Mick Pickup: Okay. Thanks for that.

Jean Cahuzac: If I may – just to add one comment – I think we're also very well-aligned now with Petrobras and we're working very well together with Petrobras to complete this project in a cost effective and timely manner.

Mick Pickup: Okay. Thanks gents.

Moderator: Okay. We now go to the line of Fiona Maclean at Bank of America Merrill Lynch. Please go ahead, your line is open.

Fiona Maclean: Thank you. Yes, it's Fiona here at Merrill Lynch. I have two questions for John Evans. I was hoping we could get a little bit of a fuller explanation as to what's gone on in Mexico in the first quarter to cause these issues on this project and when will these issues come to an end?

And secondly, looking at your local content on your presentation slides, you've got the Leith Spoolbase back on that slide. Now, if my memory serves me, that used to be an asset that the old Subsea 7 had and Barry mothballed that site. So can you just explain why you've decided to reinvest in that site and what, in particular, you are seeing to make that investment decision. And maybe Jean could give an idea of what the cost implication is on your capex? Thank you.

John Evans: Okay. If I take the last question first – you're correct: Leith was a spoolbase that we used in the UK sector. We maintain the lease on that asset, even though we mothballed the facility, and we have seen the pick-up in the work in the North Sea, where the ability to have a base in the UK as well as a base in Norway gave us some competitive advantages. We reactivated that base last year and that base is on line at the moment and welding up our Dana Western Isles work, which will be liquidated later on this year. So we've reactivated an asset that we had in the past and in terms of capex, it's not material, in terms of capital deployed to get it back up and running.

Fiona Maclean: Okay.

John Evans: In terms of Mexico – if we look at the work in Mexico, we've concluded all the pipe-laying activities and that went as we had predicted at the back end of quarter four on L60 and L67. What we have at the back end of those projects, though, are some tie-ins to existing platforms and some modifications to do on the top sides. We have seen some scheduling challenges with other activities that our clients are doing on those platforms, which has meant that we have taken a prudent view of taking all our costs and then we will do some dialogue with our clients over the next few months around the standbys that we've incurred.

The projects – one of them is coming to an end now and the second one should come to a close on quarter 3. So they're boxed-in, they're contained, the bulk of the work is complete; it's a series of dialogues with Pemex that we need to have ahead of us.

Fiona Maclean: Okay. And just in terms of the conversations that you've had so far with Pemex – and clearly Pemex is going to be providing a very large opportunity to the industry in the years to come – are you quite comfortable with how things are going with your relationship with the company?

Jean Cahuzac: I can answer to that. I was in Mexico last week and met with the top management of Pemex to actually discuss their plans. I concur with your comments saying that there will be significant activity in Mexico in the years to come – in particular in deep water. What is important for a company for Subsea 7 is to manage the risk profile and in particular all the risk associated with terms and conditions of the projects. And we are in, I would say, productive discussions with Pemex on that, but we will not compromise on the risk profile. We will work in Mexico once we are comfortable that this risk profile can be managed.

Fiona Maclean: Thank you very much. That's it from me.

Moderator: Our next question is from the line of James Evans at Exane BNP Paribas. Please go ahead, your line is open.

James Evans: Hi, thanks for taking my question. Just a couple if I can – I just wondered if there was going to be any examination of your bidding strategy in West Africa? It seems like local content may have influenced the price. So just how are you thinking about how much local content you should be putting into those bids, particularly in, say, Angola and Nigeria?

And secondly, just to follow up on Fiona's question, I just wondered if you could quantify that impact in Mexico in the first quarter? Thank you?

Jean Cahuzac: Yeah, I mean – to answer on the first question and the local content – I mean, local content will remain a key component of the decision of a national company everywhere, I would say and in particular in West Africa. So local content is important. But we have the flexibility to adapt to whatever local content makes sense. We can go to a very high level, we can go to a lower level. And when we look at the tenders on the table to date, we are engaged – both with the IOCs, but also with the authorities – to define what's the best balance between local content and cost. So I think things haven't really changed and I think we are very well positioned to whatever the evolution is in this particular area.

Regarding the Pemex contract – you know, as John mentioned, the project has been boxed-in. We've taken, I think, a very prudent approach in the costs that we have recognised in the numbers. We are now in commercial discussion with the clients to see how things can be improved, but I think it would be premature to comment. But it's not a project in which losses will continue to escalate in the months – it's been boxed and we are in discussions with the client to see what can be done.

Generally speaking, we are taking a very prudent approach when we recognise revenue associated with VOs which are being discussed but not signed. And I think it's important that we stick to this particular approach, even if it can have, in short term, an impact on a given quarter like it has. But it's the way to go – I mean, we don't want to have a bad surprise in the future. So we are discussing with Pemex and we'll see.

James Evans: Thank you.

Moderator: Our next question is from the line of Phillip Lindsay at HSBC. Please go ahead, your line is open.

Phillip Lindsay: Yes, thanks. Two main questions from me, please. The first one on the North Sea and the competitive environment – it looks like it's been getting more competitive now for some time and we've had recent news that one of your US peers plans to open a spool base in, I think, Hartlepool. Other players are known to be targeted some of that work in the area. So that all suggests that the threat is very real. So I think we know that you've got a clear competitive edge for the big jobs – so perhaps you can comment on what the big jobs are that you see on the horizon? But then, perhaps, how concerned are you about the medium-term outlook in the North Sea?

That's the first question. The second question is really just on your longer-term capex. So – just thinking about 2016, not too much committed there, but in your analysis of what you think the market needs – or areas of the market that you may think are in short supply – do you have any conviction at this point that you may commit to any significant new investments that would take that longer-term capex trend higher?

Jean Cahuzac: Okay. Thanks for your question. I mean, the first point on the North Sea – you know, I mentioned at the beginning of my script that the tendering level remained quite high in the North Sea on SURF. It's a question of timing of award – I mean, is it Q2? Is it Q3? Is it Q4? That's the type of thing that we're thinking about because there are a number of large projects which, I think, will be awarded to market. I mean, Catcher will be one; Edradour, Maria in Norway: all these projects can be hundreds of millions each. And as you mentioned, we are one of the few service companies which can actually deliver these types of projects for the customer.

But I think there is more competition in the North Sea, there is no doubt. I mean we've seen newcomers, especially on the low end of the market and in the Life-of-Field. But what we have been seeing last year and we are still seeing at the beginning of the year is that, in fact, we are keeping our market share – in some cases increasing our market share – because of the flexibility that we have, the resources that we have, the size of the fleet that we have. And I'm quite encouraged with what I've seen, particularly in Life-of-Field in the UK side where we are one of the first choice of the operators, whatever their size are, when we talk about Life-of-Field.

The investment in Leith – which, as John mentioned, is a limited investment in terms of capital – I mean, shows our confidence in the way we see the North Sea in the years to come. And when you look at the financial results of the North Sea – just to stop on this topic – you should not forget that the '14 results are impacted by the fact that the *(Seven) Oceans* and the *Skandi Acergy* and not working in this part of the world during the year. That obviously creates the limits, but it's the '14 limits, it's not the limit forever.

And regarding the capex – I think Ricardo mentioned the fact that we have a very disciplined approach, in terms of capex. I mean, I mentioned it in the past, but just to remind you that four of the six vessels that we are building today have a long-term five-year contract in Brazil at rates which – allows us to generate a return over our cost of capital. So we have two vessels today which, you could say, are built on speculation. And that's in line with the fleet announcement programme that we have and the new technology that we think will allow us to differentiate ourselves in the North Sea – particularly on the seabed factory approach.

We intend, in the years to come, to keep this very disciplined approach and we'll only invest on capex once we can identify a growth in some area and the approach of the board is always to focus on return on capital. So I would not expect, post this new build programme, a huge amount of additional capex. We will keep a very disciplined approach.

James Evans: Okay. Alright. Thank you.

Moderator: Our next question is from the line of Ryan Kauppila of Citi. Please go ahead, your line is open.

Ryan Kauppila: Yeah, good afternoon. Just regarding the high level of tendering activity, as it relates to your positive medium-term outlook – have you seen a higher proportion of tenders from independent NOCs, relative to IOCs, in that positive medium outlook? Is that a trend that you think is going on and that you have?

And then secondly – just a bit of a technical one for Ricardo – in your good will impairment test for 2013 you lowered your discount rate quite a bit and you cite that you used a normalised capital structure for the industry. Just wondering, ballpark, what is a normalised capital structure for the industry?

Jean Cahuzac: Well, let me take the first question. When we talk about tendering activity and a high level of tendering activity, in fact it's with IOCs, independents and NOCs. I will make one exception – it's Petrobras in the pre-salt. I mean, you may remember that, because of the risk profile of the pre-salt, we have decided not to bid for jobs on the pre-salt on EPIC basis until we find a more balanced commercial approach with Petrobras. But, outside of the pre-salt, we see more activity around the world – from Pemex, which was mentioned before, through ONGC to all the IOCs and the independents around the world too.

So I think it's a general trend. I would like, however, to mention that the timing of the contract awards to the market is still being uncertain. And therefore, while I am definitely very encouraged by this tendering activity and probably more encouraged than I was at the beginning of the year, I am still cautious regarding the timing of the project awards.

Ricardo Rosa: Turning to your more technical question, Ryan, on the impairment testing process, I mean, we obviously regularly look at all the variables that comprise the testing process, and one of them that we looked at closely in 2013 was the relevant discount factors, our weighted average cost of capital, we thought it was appropriate to take a deep dive on that, since we've been in – the merger taking place, you know, two years before. We did a lot of research, we worked with external advisors, and we came up with a discount factor that we consider to be very well supported by – by documented variables, and have been reviewed by our auditors at the time and they agreed with it. So I'm comfortable that we did the right thing there. As far as the debt – the capital structure of the industry is concerned, I mean, we are expected to include in our calculations a capital structure that is representative of the industry and its main players, and this is a requirement that is imposed by IFRS and by the regulators; so clearly, I mean, you know the main industry players as well as us, and we use them as a reference to establish that notional capital structure. Some people would argue that we, that our capital structure is somewhat less levered than our competitors'; we don't necessarily take that view because of the leasing contracts, the charter contracts that we have that are treated today off balance sheet. But I'm comfortable that we took the right approach with the appropriate level of rigour.

Ryan Kauppila: That's perfect; thank you very much.

Moderator: Our next question is from the line of Geoffroy Stern of Kepler Cheuvreux. Please go ahead, your line is open.

Geoffroy Stern: Yes, it's Geoffroy Stern from Kepler Cheuvreux. I have two questions. The first one relates to Mexico, again. So we clearly see that the Mexican project had quite a significant impact on the net operating income. I was wondering if you could quantify that, and is it fair to assume that the bulk of the net loss from minorities in the quarter was driven by your Mexican subsidiaries? And looking at the minority line, it's the second quarter in a row that we see a net loss for minorities, so that's my first question. And the second question is regards the North Sea. Last year you said a couple of times that some, let's say low margin project, would be completed in 2013, and implying that the profitability we'd see in the North Sea would improve in 2014. I take your point that you have, let's say two vessels out of the North Sea, but on the margin side, is it still a valid, let's say assumption, that you will start executing more profitable projects this year? Thanks.

Jean Cahuzac: Let me take the second question first on the North Sea. First, I have not changed my view on the comment that I made last year. Just as a reminder, however, what we see in the North Sea is more EPIC projects which include a significant part of procurement and fabrication, and like for every EPIC project, I mean, the margins on the procurement side is not on the same level as the margins on engineering project management and execution, and it's not at the same level because in fact we are mitigating the risk in this part of the project by having provisional lump sums on a number of things.

So things haven't really changed in our view on the North Sea, and we believe that we can reach our group margin in that part of the world, taking into account the different portfolio that we will have in the years to come. Regarding to Mexico, before I pass it to Ricardo to comment on the minority interest, just want to repeat what I was saying before, and what John alluded to. We've taken a very prudent approach on this project: the project is almost complete, there are discussions with the client; I'm not expecting further negative impact – a material negative impact on this project, and I'm quite comfortable with where we are. I mean, it's not a major issue. But Ricardo, do you want to comment on the –

Ricardo Rosa: Yes, Jean, I think you've largely stolen my thunder there. But I think I'm just to answer specifically Geoffroy's question. I guess, Geoffroy, you were referring to the net income attributable to non-controlling interests in our consolidated income statement, although you referred to minorities there.

Geoffroy Stern: Yes, that's correct; you're right.

Ricardo Rosa: Okay. As you know, we operate worldwide, not solely through 100% subsidiaries, but also through a number of subsidiaries with minority interests that are consolidated, and certain subsid – and certain joint ventures such as SapuraAcergy and Seaway Heavy Lifting that are not consolidated and whose net income we pick up – we pick up our share thereof and include in our EBITDA. So, I mean, the activity levels in these various consolidated subsidiaries fluctuate from quarter to quarter, and you can have quarters in which these subsidiaries incur a loss as a result of recognition costs versus profit – versus revenue. So I think you must not assume that the net losses that are displayed this quarter are all attributable to our Mexican joint venture. Certainly, you could argue, the additional cost recondition that we took in this first quarter did have an impact on that line, but it's not solely attributable to Mexico.

Geoffroy Stern: Alright, thanks for this.

Moderator: Our next question is from the line of Rob Pulleyn at Morgan Stanley; please go ahead, your line is open.

Rob Pulleyn: Good afternoon, gentlemen, just two questions from myself. First of all, coming all the way back to the first questions on backlog. Obviously, it seems like timing of contract awards remains quite uncertain, even if there is a lot of projects out there. On that basis, and obviously given what's – where the backlog is at the moment, how confident are you in continued revenue growth in 2015 over 2014? That's the first question. And the second question, I totally take your point that there is a lot of smaller awards that we're not aware of, and change in scope of contracts, and obviously these callouts of framework agreements. On that basis, could we expect the 1Q run rate of that slightly more invisible work from our perspective to be a good level that we should be modelling for 2Q, 3Q and 4Q? Thank you very much.

Jean Cahuzac: Well, you know, I mean, it's – to come back to your second point, it's always very difficult on a quarterly basis to have a judgement and extrapolate one quarter exactly to the second quarter or the third quarter; things can fluctuate depending on the timing of additional scope of work VOs and different stuff. So the trend is encouraging; I would not necessarily assume it is the same for every quarter. It could be better, it could be slightly worse; we'll see. Regarding the backlog, it's too early to actually comment for us on the revenue growth in 2015 compared with 2014. What we see on the tendering is encouraging, but the timing of contract awards to the market, and what's been happening in Conventional in the second part of the year will have an impact on 2015. We'll be able in the second part of the year to be more specific on next year.

Rob Pulleyn: Okay, fair enough. And sorry, just one follow up if I could – given the – shall we say the unexpected additional costs in 1Q, you still weren't far off being free cash positive for the quarter. Obviously, assuming no further sort of additional costs in Mexico, or anywhere else, would you expect to be free cash flow positive for the full year?

Jean Cahuzac: Ricardo?

Ricardo Rosa: I think given the guidance we've given for 2014, you can assume that we're going to generating a significant amount of operating cash flow. This being said, we have highlighted the fact that in 2014 our capex commitments are high, as a result of our vessel new build program, and we have significant distributions to shareholders, both in the form of a dividend that is planned and a share buyback, so I think it's – I'm not going to say that we're going to end up being overall cash positive for the year. I think that's – that will depend very much on the phasing and any delays that we may have on our capex programme, and the completion of some of our commitments to return cash.

Rob Pulleyn: Okay, fair enough. Thank you very much.

Moderator: Our next question is from the line of Kristian Diesen of Pareto. Please go ahead, your line is open.

Kristian Diesen: Going back to Gurara-Lula, is the progress there now such that you will take the Aker Wayfarer perhaps to the North Sea for the summer season to generate some margins there, or will it stay in Brazil through Q3? And also, what will the Polaris do post this project?

Jean Cahuzac: I'll let John answer to your question; thanks Kristian.

John Evans: Yes, Kristian, we, once we conclude in Guara-Lula, the Aker Wayfarer is – has a piece of work for us in Africa, and we may bring her back to the North Sea towards the end of the season, where we generally find some additional work coming in. She's busy for us for the duration of the charter, for the remaining days that we've got. The Polaris, at the moment, we have – some tenders outstanding for the Polaris, at the moment we will be demob her at the end of Guara-Lula, and then she will go back to work on the next projects as they come in.

Kristian Diesen: Right. And just as a follow-up on the outlook, I appreciate it's early days for you to be specific on '15, but am I right to assume that you've become sort of incrementally more positive now over the last couple of months, since you last spoke at Q4? Is that a fair way to sum that up?

Jean Cahuzac: I think that the fair way to sum that up is that I'm more encouraged with what I see on the tendering side, worldwide, in that sense. But I'm still cautious on the timing of project awards, and the timing of the Conventional also, we'll see what happens. I think the trends of what we are seeing on the market are going the right direction, I mean, the fundamentals of this market definitely haven't changed. And it's, it will come all together. But we still have a number of unknowns on timing of project awards to the market, and that's why I'm still cautious.

Kristian Diesen: Thank you.

Moderator: Our next question is from the line of Jeff Geygan at Milwaukee Private Wealth. Please go ahead, your line is open.

Jeff Geygan: Good afternoon and thank you for taking my call. Can you please quantify the size of the tenders that you referenced in Canada, and then the probability of a Subsea win of those? And secondly, you referenced earlier that Pemex intends to engage in deep water drilling in the future. I know there's a certain amount of unknown with that, but can you give us your view on what that might look like over the next – over the medium to longer term?

Jean Cahuzac: I think, starting with Pemex the next project – deep water project which has been tendered today is Lakach, which is a large project in Mexico. We expect this project to be awarded to market late 2014, beginning 2015, but the risk profile on the project is something that we are focusing on, and which is part of the discussion with Pemex. But that's really the large project, or the next large project on deep water that we are seeing with – with Pemex. Regarding Canada – I mean, John, you must have some comments on Hebron and the rest…

John Evans: So Hebron was the latest field development, and we were successful in picking that work up this quarter. So we're pleased that we've maintained our momentum there in Canada, we know that Statoil have found a very, very significant field in Canada, and we're in discussions with Statoil, they're looking to accelerate that coming to the market for tendering, and how that will get developed in due course. So again we see with Canada incrementally, the projects come, and we're pleased that the Hebron work will keep our St John's office busy, having concluded some of the work we've done there with Suncor in the previous year.

Jeff Geygan: Thank you.

Moderator: The last question for today is from Jaideep Pandya of Berenberg. Please go ahead, Jaideep; your line is open.

Jaideep Pandya: Yes, thank you for taking my questions. Two questions. First of all, if you, could you just give us some comments structurally speaking on the margins you make in procurement, if your clients are really working with you in reducing costs and if a lot of the emphasis is trying to reduce the procurement pocket, whether you will have structural headwind in your margin profile with regards to – with regards to procurement. That's the first question.

And secondly, then, if you – just going back to the competitive landscape, coupling that with the asset base that you are building. Could you just tally that in, given the fact that you have now lost a few awards to your competitors in West Africa, how do you see the order outlook with the asset base considering if maybe you are still wanting to build assets? Thank you.

Jean Cahuzac: To take – thank you. To take your first question on procurement, I mean, we don't see the margin profile on procurement changing. We've been saying in the past and we continue to say it's a lower margin than a part of the work where we take risk. When we talk about procurement, and we are talking about the costs going down, we are actually passing the costs when they go up to the clients, and when they go down to the clients, that doesn't change – the approach hasn't changed. The margin… a high one digit percentage margin, usually, but again we are not seeing any pressure on what we have experienced in the past. So no change there. The fact that we are passing cost saving as well as additional cost to the client on procurement is a risk mitigation approach which I think makes for a good approach and things haven't changed there.

Regarding the asset base, first to come back to your comments on Africa, I'm still convinced that we will win our share of market share in Africa. We lost Kaombo which was a very large impact on the backlog in the given quarter for our competitor, but the other projects to come, I see absolutely no reason why we would not be, we would not win the, our share of the market there. Regarding the assets that we are building, they are not for the West Africa market, they are four PLSVs long term contracts with Petrobrasas, and the two others are for North Sea type operation. We have what we need in Africa, with the *(Seven) Borealis* and other vessels, so I'm quite comfortable that we will maintain competitiveness there.

Jaideep Pandya: Okay, just one follow up. If you sort of see that the industry is going through a lull, can you give us some colour if you are looking at operational excellence, trying to reduce costs, is that – or are you still sort of continuing in the growth mode in terms of headcount and in terms of just the overall mentality, or are you thinking more from a cost containment point of view as well, right now? Thank you.

Jean Cahuzac: I mean we're obviously thinking about the cost optimisation and cost reduction, but that's not new. We started in 2013 our plans for Brazil, and what you see today in the results of Brazil, which are going to continue to improve in the coming quarters, is the result of the PLSV contracts, but also the results of the decisions and measures that we have taken in terms of trimming down the organisation and optimising our cost structure, and we have the same approach all around the world, and we will continue to have this approach.

What we are not doing is that we are not stopping what we do in turns of training of the young graduates, and investing on the long term for our people, that's something that differentiates us and we continue to do. But we will adjust the organisation to the level of activity that we have. But you know I was mentioning before, you know, we have a very high level of tendering today, we are, people are very active, we are working very actively with operators to define with them, or review with them different technical options to lower their costs on the projects, to make the projects more viable, and all of that is added value. So we are doing the right thing.

Jaideep Pandya: Okay. Thank you so much.

Jean Cahuzac: Okay, well, I would like to thank everybody for the questions, and I think we have to stop there, but looking forward for a new presentation and Q&A at the last, the next earnings call.

Moderator: This concludes the call. Thank you all very much for attending, you may now disconnect your lines.