Subsea 7 S.A.

Subsea 7 S.A. Third Quarter 2012 Results

Monday November 19, 2012

Speakers
- **Paul Gooden – Investor Relations**
- **Jean Cahuzac – Chief Executive Officer**
- **Ricardo Rosa – Chief Financial 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; and Ricardo Rosa, our Chief Finance Officer. Today's results are for the third quarter and nine months ended on September 30. 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 for various factors. Details of these can be found in the company's filings, including the company's annual report.

May I also draw your attention to the more detailed disclosure on forward-looking statements that appeared in today's press release. Today's call will run from one hour. With that, I'll pass it over to Jean.

Jean Cahuzac

Thank you Paul, and good afternoon to everybody.

I would like to make a few observations on our results and the market before Ricardo runs through our financials. I will then comment on outlook and our strategy, before we turn to your questions.

I am pleased with this quarter results. We have seen high activity level in the North Sea and it was another good quarter in Africa. Asia results were impacted by a mechanical equipment failure on DSV Rockwater 2. This problem has been now solved and the vessel is back to operations. As expected, Brazil results continue to be impacted by the Guara Lula project which is ramping up but continue to be executed at zero margin. Vessel utilisation was 88 %, a record level for the Group.

Overall a good set of results for the third quarter – in line with our expectations.

At the end of the Quarter, we had a $ 8.1 bn backlog. We see significant opportunities for further growth as more large projects are expected to be awarded to the market in the coming months. And we had positive news since quarter end with over $ 1.3 bn of announced orders so far, the highlight being the award of Martin Linge, which is the biggest award ever in the North Sea. Another important point is that the overall quality of our backlog continues to improve as we remain disciplined in our approach for bidding new projects.

So turning now to the market. We continue to see no impact from global macro-economic uncertainties on our clients' plans. We still expect the present high level of bidding activity to translate to market awards later this year and early 2013, in particular in the North Sea, Africa and Brazil. The medium term growth opportunity ahead of us is significant, and the cycle continues to improve.

In the North and Norwegian Seas. 2012 is busy year with clients playing catch-up on their investment plans, and we continue to see a strong client activity. We are pleased to have been awarded BG Knarr and Total Martin Linge, which are the first of a number of large projects now planned in the North Sea. These awards demonstrate the confidence that the operators have in the ability for Subsea7 to deliver large EPIC projects. By their nature, these two projects will lead to offshore operations in 2014 and beyond.

In West Africa, there have been some industry awards in Angola in recent months, however the market award dates for some of the larger projects have been delayed. We still expect that these projects will be awarded to market in the coming months as our clients remain committed to their investment plans. Due to their execution schedule – the impact of these projects on our bottom line will not be seen before 2014.

In the Gulf of Mexico, we are starting to see signs of an increase in activity following the recommencement of the award of drilling permits. We should see more contract awards to the market in 2013 and execution in late 2014 in an improving business environment.

Turning now to Asia Pacific. We continue to see growth in this region albeit at a lower pace than other parts of the world. Further awards are expected to come to market, especially in Australia, Malaysia and Indonesia, over the next 12 months. Our approach is to remain disciplined for these tenders to ensure we can achieve the right returns.

And finally, Brazil. We continue to see significant opportunity ahead, in traditional deepwater in the Campos basins, as well as with pre-salt developments. In 2013, we expect to see further PLSV contract awards for new builds contracts in both Brazil and internationally, as well as renewal of existing contracts. More large EPIC projects for pre-salt developments are likely to come to market award over the next year.

So in summary, we have seen a continuation of the positive momentum that we talked about in August. A robust oil price and rising tendering activity around the world reinforces our view that the outlook for our industry remains very positive. We continue to see growth opportunities in all of our markets,– and we remain focused on building quality backlog; and ensuring that we maintain a disciplined approach from both risk and pricing perspectives.

With that, I'll hand over to Ricardo to run through the financials

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Ricardo Rosa

Thank you Jean and good afternoon everyone. As Jean has stated, the results for the third quarter 2012 reflected a generally positive trend with revenue and net income at higher levels than the same period last year. After removing the effect of the $23 million gain on sale of NKT flexible, adjusted diluted earnings per share were $0.44 for the quarter, $0.01 lower than the prior year period.

I will now discuss the consolidated income statement and the Territories' operating results for the third quarter and comment further on the balance sheet and cash-flow. I will conclude with some guidance for the remainder of 2012.

As shown on Slide 7, third quarter revenue was $1.7 billion, exceeding the prior year period by $312 million due to improved activity in the North Sea, Canada and Brazil. Net operating income, at $228 million, was $28 million higher than the third quarter 2011 benefitting from vessel utilization rising from 83% to 88% but was $18 million lower than second quarter largely due to a reduced share of results of joint ventures. Net income before taxes of $248 million for the quarter included $23 million in other gains, arising mainly from the final adjustments relating to the sale, which took place in the second quarter this year, of our 49% interest in NKT Flexibles. The year-to-date gain on the tax-exempt sale of this shareholding was $244 million. Net income for the quarter, at $194 million, was $21 million higher than the prior year period, reflecting the positive impact of a lower effective tax rate. Adjusted EBITDA of $318 million was equivalent to 18.2% of revenue and was up $39 million year-on-year but the adjusted EBITDA margin was 1.3 percentage points down year-on-year due to project mix.

Turning to Slide 8 and the Territories' operational performance, North Sea and Canada delivered the highest revenue in the quarter at $847 million as a result of high vessel utilization mainly on EPIC projects such as Laggan Tormore and Skuld in the North Sea and Terra Nova in Canada. Net operating margin of 12.4% for the Territory was slightly below the prior quarter's 13% but significantly above the 7 % generated in the same period in 2011 reflecting an improved mix of higher margin contracts. Revenue of $506 million for Africa and Gulf of Mexico was $93 million down year-on-year but net operating income of $ 125 million was higher thanks to a 24.7 % margin. The improved margin reflected good operational performance on Block 31 PSVM in Angola and the MPN satellite field in Nigeria, both very close to completion. Encouraging progress was also achieved on the CLOV field with the project moving offshore this December. Revenue for Brazil at $338 million benefited from improved levels of vessel utilization and progress in the engineering and procurement activities for Guara Lula. Net operating income of $ 1 million largely reflected the zero margins associated with this major pre-salt project and timing of activities on other smaller projects. Asia Pacific showed a decline in revenue of $14 million compared with the prior year third quarter due to unplanned vessel down-time which also explained the $2 million net operating loss for the period.

A $ 1 million net operating loss was incurred at the corporate level in the quarter driven by a $12 million charge relating to the buy- out of a defined benefit pension plan in the UK. This charge was non-recurring and the buy-out was part of a continuing program of administrative cost reduction. Integration costs amounted to $5 million in the quarter and were more than offset by a positive contribution from our joint venture, Seaway Heavy Lifting.

As shown on slide 9, administrative expenses were $98 million for the third quarter 2012 and included the previously mentioned one-time $12 million charge and integration costs of $5 million. Our share of the results of joint ventures at $ 12 million for the period was down $ 40 million on the same quarter in 2011 reflecting both the sale of our 49% share of the NKT Flexibles business in the second quarter and the impact of the previously mentioned vessel down-time in Asia-Pacific. Finance costs at $ 7 million for the quarter, net of investment income, were $ 4 million higher than the same prior year period due to falling investment yields. Other gains and losses of $26 million included both the $23 million relating to the previously discussed sale of NKT Flexibles and $ 6 million gain on the spin-off of our Veripos business as a distribution in kind to our shareholders. Veripos, which specialises in satellite navigation systems, was successfully listed on the Oslo Bors in the third quarter. Net foreign exchange losses amounted to $3 million in the third quarter, as a result of the US dollar strengthening against most of our trading currencies.

Excluding the impact of the gains on the sale of our NKT Flexibles and Veripos, the tax charge of $53 million for the third quarter, which included certain discrete items, represented an effective tax rate of 24%. This reflected a downward trend in the underlying effective tax rate for the year thanks to the impact of improving profitability in certain countries where our operations are taxed on a deemed profit basis. We are now expecting our underlying effective tax rate for the year to be between 32% and 34%.

As summarized on Slide 10 our cash-flow generated by operating activities was $320 million for the 9 months to September 2012, broadly in line with the $332 million generated in the 10 month period to September 2011. This was despite the net increase year-to-date in operating assets of $381 million that reflected the continuing growth in our business. Capital expenditures to date were $460 million in total and were largely attributable to the construction of the new high specification vessels we have highlighted on the slide.

In the third quarter we paid a cash dividend of $199 million to our shareholders which, when combined with our $200 million share buy-back program and spin -off of Veripos reflects our continued commitment to shareholder returns.
On 27 September, we launched a $700 million convertible bond offering, including an over-allotment of $100 million in response to investor demand. The bond, which matures in October 2017, was issued with a coupon of 1% and conversion premium of 30%, equivalent to a conversion price of US$30.10 per share. Net proceeds totalling $ 698 million were received on 5 October and will be used primarily to finance capital investment against an expected backdrop of continuing growth over the next five years.

As Jean has already provided further colour on our backlog, I will finish with some updated guidance on 2012. As indicated on Slide 11, we expect to deliver 2012 adjusted EBITDA in line with consensus forecasts. We have tightened our guidance for administration costs with an estimate of $360 million for the year. This figure excludes integration costs for which our projection is unchanged at about $30 million. Net financing costs are expected to be approximately $30 million for the year with the $ 700 million bond issuance impacting the fourth quarter. Depreciation and amortisation projections have been lowered to $340 million from our previous guidance of $340 million to $350 million and we have tightened the range of our underlying effective tax rate to between 32% and 34 %.

Capital expenditures will range between $750 million and $ 800 million of which $450 million relate to the acquisition or construction of new vessels. I would add that we expect an annual expenditure of about $ 800 million to be a feature, on average, for the next five years based largely on potential opportunities we have already identified. I must emphasize that this projection is an annual average with the commitment to such investments and the timing of them being subject to a variety of factors. As we have emphasized previously, we will rigorously evaluate all potential investments with the intention that they meet or exceed our hurdle rates for return on invested capital.

With the recent bond offering, we feel confident that we have the balance sheet structure and liquidity to finance these opportunities to re-invest in the business in a disciplined and value-enhancing manner while funding debt maturities which may potentially arise in the five year period.

With that, I will hand 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

Alex Marie – Exane

Hi. Good afternoon and thank you very much for taking my questions. First of all, I'd like to get a bit more clarity on the supply chain bottleneck. Can you give a bit of colour on what kind of bottlenecks you're seeing and what kind of risks this could add to your business? And, second, on Asia Pacific, there's been some news flow on the cusp of Gorgon in Australia, now you have a piece of that project in your backlogs, so can you say if you're affected at all by the capex increase we've seen and whether there's an execution risk there?

And, finally, ATP oil and gas, I know you had a contact with them, so could you say whether this is still in your backlog or not and whether you're likely to remove any projects from your backlog from the bankruptcy of ATP? Thank you.

Jean Cahuzac – CEO – Subsea 7

Yes, to take your first question on the supply chain bottleneck, what we are seeing is not new. In fact, we've been mentioning since the beginning of the year that with today's global growth, we see more work going to the suppliers and the suppliers are more stretched. That relates to equipment manufacturing mainly.

That doesn't affect today our existing projects. We believe that we are on track to execute these projects successfully. But some of the operators have revised the schedule for the new projects award and have pushed them a bit to the right in some parts of the world. I wouldn't say it's on all projects, but we are seeing a number of projects being postponed.

Regarding the cost on Gorgon, that doesn't really affect our part of the business and it's not an issue for us.

On the ATP, we are today not exposed financially to the contracts or the projects we had in the past with ATP. So, there is no exposure for our balance sheet there. We have today a bit more than $100 million backlog on ATP and that's something that we will review in the future.

Alex Marie – Exane

Thank you.

Philip Lindsay – HSBC

Yes, hi there, guys, good afternoon. A couple of questions, please. Firstly, on the PLSV renewals, are these simply direct negotiations with Petrobras or are any of these actually be re-tendered? And what is your expectation for pricing, terms and conditions and whether they will be more favourable than the earlier contracts?

And then a second question on Guara-Lula, exactly where are we in terms of execution of this contract? I mean, how far, if it all, are we into the offshore phase of this contract? And has there been any change to your expectations in terms of what revenue you expect to execute in 2013?

Thank you.

Jean Cahuzac – CEO – Subsea 7

Yes, first on the PLSV renewal, it's a negotiation with Petrobras, but we know also that Petrobras in parallel have asked some other potential suppliers to provide quotes from outside Brazil. So, we are presenting a negotiation. I would say that in terms of pricing, I mean, for commercial reasons that you fully understand I cannot really mention what our target is. We obviously expect improvement there. In terms of the terms and conditions of the contract, it's still just the standard contract with Petrobras. We are not really exposed on the PLSV contract; terms and conditions are standard. And providing that you perform well, I mean there is no more exposure than you have in other parts of the world.

There is an exposure in terms of costs, but I think it's something that in terms of the market, we evaluate properly and we are taking a conservative approach on evaluating our personal costs in particular for the renewal of this PLSV project.

Guara-Lula will be in operation in summer of 2013 in terms of offshore installation. I've seen in the press a few comments from different parties on Guara-Lula, but the schedule is in line with what we had announced to Petrobras earlier this year. Equipment delivery is a specific focus for us because of what I mentioned before, the stretch on the supply chain. But we are on schedule, the same schedule as at the beginning of the year.

Philip Lindsay – HSBC

Okay, that's fine. Just one quick follow up if I could…

Jean Cahuzac – CEO – Subsea 7

I'm sorry and there is one point I forgot to mention is that we expect on Guara Lula

[CORRECTION: around $350m of revenue in 2012, of which around $250m has been recognized YTD]

And most of the remaining value of the contract, which you recall is close to $1 billion, will be in 2013.

Philip Lindsay – HSBC

Okay, thanks. A quick follow up on Gulf of Mexico. I know you seem to be putting a bit more emphasis on this region and I know a while back you were quite optimistic that your spool base there would make you a bit more competitive in that market. So, just it would be great to get a comment on how you think the competitive market is shaping up in that part of the world as it recovers post Macondo.

Jean Cahuzac – CEO – Subsea 7

we consider that the spool base that we have in the Gulf of Mexico is a very good advantage to be very competitive in this part of the world. It has not been a great success post-Macondo because most of the projects were postponed significantly. What we are seeing today is activity slowly picking up and we are targeting some specific projects where we believe that we can have the right return. But things are moving in the right direction. We start also to see some potential activity in Mexico that we're also monitoring.

Philip Lindsay – HSBC

Okay, thanks very much.

Fiona Maclean – Merrill Lynch

I had a question about the outlook for your backlog as we move through 2013. When we looked back at 2011, you had very significant growth in the backlog. This year it's had a little bit of a dip down. And I appreciate you've given some guidance on what you think operationally is going to happen next year, but, really, what level of growth would you anticipate to see?

And then, secondly, in terms of the capex spend, you're now saying over the next five years per annum you're looking to spend between 750 and $800 million. Now, there are very significant levels of cash that's going to leave the business. Can you help me understand why you feel you need to spend that much capex over the next five years when the decision to merge Subsea 7 and Acergy was presented to the market in part because it would mean that your (unclear) was going to be so much more larger and the capex spend would be less? So, I'd just like to get an understanding the thinking there. Thank you.

Jean Cahuzac – CEO – Subsea 7

Thanks for your question. So, to start with the backlog, we expect in the coming months to have a number of projects awarded to the industry. We're quite obviously pleased with the late announcement of $1.3 billion of backlog post quarter and continue to believe that a number of projects will be awarded to the market in the months to come. To name a few, talk about Ehra North should be awarded in Nigeria to the market. The Ten project probably at the beginning of 2013 in the first part of 2013 in Ghana will also come to market. We see additional work on Lianzi, which has presently been tendered in the topside and a number of other projects.

And of course in Africa, there is the big elephant, I mean the Kaombo project, the Bloc 32, which is a multibillion dollar project that we are bidding together in consortium. And then in the North Sea, there is also a significant number of projects which should come to the market, middle sized projects, not as big as BG Knarr or Martin Linge. And obviously in Brazil, we mentioned the renewal of PLSVs. We also mentioned the new build project where Petrobras is likely to secure up to six or seven new build PLSVs at the beginning of 2013. And there are the pre-salt projects where Petrobras is discussing fields three and four. So, there is a lot of opportunity and I shouldn't forget, by the way, in Asia, a project like Gehem-Gendalo which is more than a $1 billion project in Indonesia. And I could go on with the list and we believe that this project will be awarded end of 2012 and during the course of 2013.

Regarding the capex, I would like to confirm that post-merger, we have achieved our objective in the sense that when I look at our fleet, when I look at the size of the fleet, we have the flexibility that we wanted. From a technical perspective, we also cover all the technical specification vessels that the operator required, including the deep water with the Borealis. So, there is no need to invest on assets to fill a gap to fulfil some part of the market or to make an alliance with another operator like Technip did with Hereema to be able to address the deep water.

We talk about new capex because the market is, in fact, growing faster than we thought two years ago. And as Ricardo mentioned, we will remain disciplined on this new capex. We will build PLSV if we get a contract with Petrobras, so part of these numbers include PLSV new builds for Petrobras. And any other investment will be evaluated on its merit looking at expected return on capital. On fleet renewal, we have some older DSVs for the North Sea that we will replace over the years.

And I said before, maybe one in Q4 in very short-term. So, it’s to match the growth; it’s not to fill a gap or fulfil some technical needs that we could have.

Fiona Maclean – Merrill Lynch

Okay, and could you just maybe give a comment on weighing up bringing additional vessels into the market versus trying to have better pricing? Because if we look back at the previous cycle, there is a much larger emphasis on actually getting better prices on the vessels that were in place rather than just bringing additional vessels on stream.

Jean Cahuzac – CEO – Subsea 7

I think we’re doing both things. I mean, obviously pushing the better pricing on the vessels which are on long-term contract on day rate agreements is a priority. And when we talk about additional capex, we talk about the high end of enablers and, in fact, the added value is even more through the project added value. I was mentioning Martin Linge… we won Martin Linge, a $800 million project, with the Borealis; we couldn’t bid this project without the Borealis. And it’s a very short utilisation period for the Borealis. The added value is on the project. So, we are a project company and the added value comes from the project more than the vessels. Obviously we need to have more than our cost of capital return on the new build. But we can do both.

Fiona Maclean – Merrill Lynch

Okay, thanks a lot, Jean.

Frederik Lunde – Carnegie

Thank you. You just commented on the capex side, but could you also highlight what kind of return or cash flow generation we should expect from these additional vessels?

Ricardo Rosa – CFO – Subsea 7

We evaluate each vessel in a very rigorous manner, looking at the various projected cash flows under various scenarios and doing various sensitivity analyses. But, effectively, I mean, we target meeting or exceeding the hurdle rates of the company, which are based on our weighted average cost of capital. And over time, we want to enhance the return on our invested capital over the five-year growth period that we see ahead.

Frederik Lunde – Carnegie

So, you expect a higher return on capital than you have today, is that correct, or…?

Ricardo Rosa – CFO – Subsea 7

Our… you know, our objective over time would be to improve our return on invested capital, yes.

Frederik Lunde – Carnegie

And that’s currently around 11%. Is that in line with your numbers? Sorry.

Ricardo Rosa – CFO – Subsea 7

Well, I mean, it depends how you measure it, yes. I mean, it depends how far back you go. But our weighted average cost of capital at present we believe is around 11%, yes.

Frederik Lunde – Carnegie

Okay, and also just wondering about Brazil and Petrobras, are you getting any signals from Petrobras regarding how they’re going to approach the spending plans going forward? Are you seeing any slowness in decision-making or is it all full speed ahead still?

Jean Cahuzac – CEO – Subsea 7

I would say something in between. Petrobras has still very ambitious plans for the development and, in particular, the presold. And when you look at their ambition, they are lower than they were 18 months ago. Some people say more realistic. But even with the slower, lower ambitions, there is still plenty of work. And I think there may be more work than the industry can provide in the short-term, both in the supply chain and our side. So, when I look at Petrobras' scope, a lot of work to come even in the lower scenario that Petrobras presents. But we need to be very disciplined. We need to be not in a hurry to catch backlog for the sake of cashing backlog and manage the risk with the supply chain. And we've brought this message very clearly to Petrobras and I think… I think they acknowledge the constraints that local environment and local content ambition create.

So, plenty of work. The decision-making in Petrobras has been a bit slow lately, but I think it's the new management reviewing some of the approaches.

Frederik Lunde – Carnegie

And when you look at, sort of, the past five years, you really consider the Brazilian market to be the most attractive market for capital to work in?

Jean Cahuzac – CEO – Subsea 7

No, I think… I think Brazil is a very attractive market, but it's not better than Africa. It's a good market. It's something that if we… if we handle it properly will be a great market. But I would put it on par with some other markets and I think that's what makes me confident on the medium long-term of this business. It's a global market. If you are going to talk only about one market, I would be worried. But there's Brazil plus Africa plus North Sea plus Gulf of Mexico tomorrow and Asia tomorrow too, or maybe sooner than tomorrow. So, I think it's… we are in a global market and that's why the prospect of our business, medium and long-term, are I think quite encouraging. Brazil is not better than Africa. We're still focusing on other parts as well as in Brazil.

Frederik Lunde – Carnegie

Thanks. Just a final question from me, on 2013, you're clearly sounding a bit cautious. Could you try to give a bit more flavour? I mean, are you looking about $1.2… 1.3 billion of EBITDA or… where would you place yourself?

Jean Cahuzac – CEO – Subsea 7

At this time of the year, it's difficult to be very specific about 2013. And I think as every year we see where we are in Q1 and see if we need to give more flavour to '13, and we will. There are still unknowns in the North Sea, as I mentioned before, regarding winter activity, utilisation of vessels and other factors. So, it's a bit too early.

Frederik Lunde – Carnegie

Thank you.

Kristian Diesen – Pareto Securities

Yes, just following up on that, sort of, looking at the North Sea, is that even with the uncertainties you currently see, but surely you have some visibility there going into Q1. Should we expect more flattish growth for next year and then, sort of, '14 kicking off, or…?

Jean Cahuzac – CEO – Subsea 7

Well, you know, the way I look at it is also to look at the timing of project award and some of the large project awards that we won. If you take BG Knarr and Martin Linge, we're talking more about '14 and later. Regarding the winter period, which has a significant impact in the North Sea, both in Q1 and Q4, we have high utilisation in October of 2012. I honestly don't really know what will happen at the end of the year and in Q1. If I had to guess, I think we'll have lower utilisation in '13 than '12 because in '12, the operators were very keen to do catch up on the work they hadn't done during the previous years. And we ended up being offshore, in some cases, waiting on weather for quite a while. And when I look at the project of the North Sea, I mean we had a number of projects which also were completed in… at the beginning of Q4, late Q3, which will not be there in January. But I think we may be back in Q1 at least, back to the traditional utilisation rate that we've seen in previous years. I may be wrong. It may be better or it may be worse. It's too early.

Kristian Diesen – Pareto Securities

How about the… as an overall for the year…?

Jean Cahuzac – CEO – Subsea 7

We expect the margins on the project, which will be executed in '13 to be better than '12. As we said before in the past, we are rolling out projects with low margin. But when you look at it in terms of absolute terms, it depends on the timing of some of the projects, what will happen in terms of vessel utilisation, which is very difficult to predict. And I would say the other factor is that with larger projects being awarded in the North Sea, there is more supply chain and procurement in our projects, which are done at basically cost plus. So, it is this measure which makes you question very difficult to answer at this stage of the year.
Another point on '13 which was mentioned in… that I mentioned in my initial comments is that the Seven Oceans is going to be next year, not in the North Sea, but in Brazil working on Guara-Lula. From a North Sea perspective, that doesn't help the growth.

Kristian Diesen – Pareto Securities

Okay, and then just a question on the Borealis. When you commence on Clov, I think you said the Borealis will for about nine months, then there's Martin Linge which will be spring of '14. Do you have work for her set up for in between?

Jean Cahuzac – CEO – Subsea 7

Well, we're bidding her actively around the world and from Mexico to Norway to Indonesia to Africa, everywhere where there is deep water, big pipes and a harsh environment. So, the future will tell, but she's a very good vessel with operators showing a lot of interest. It's too early… too early to conclude. I mean, we are not… we haven't announced any additional backlogs.

Mick Pickup – Barclays

Yes, good afternoon, gents. A couple of questions. Could you just talk about West Africa, please? Obviously you've got Clov offshore backend of this year. But that drop off the cliff of margins hasn't happened yet. I'm just wondering if because it's coming later, we don't see as much a drop off and what we're expecting in 4Q in West Africa. At some stage, that margin needs to come down.

And, secondly, Jean, just harking back on to this new capex programme, you said the market is growing faster than we saw two years ago. I'm just looking at the 2013 estimates for EBITDA and it was nearly $1.7bn two years ago. Today it's $1.3bn and probably going down. I'm just wondering what you're seeing that we're not.

Jean Cahuzac – CEO – Subsea 7

To answer your last question first, you know, when I look at the market, I look at it from a couple of years' perspective, and when we look at the market that we targeting at Subsea 7, in fact, we are not seeing any flatness of this market. In fact, we are seeing growth in the bidding volume that we can address in our core business without going out of our core business. So, my comment was probably more this trend of the market, which will materialise partly in '13 but mainly post '13.

Regarding your question on Clov, Clov started offshore operations in December and, I'm very pleased with the execution of this project, I must say. But this project was bid at the time when are margins were lower than what we got on Bloc 31. So, good project, but not with the same margin.

The new projects which were awarded in 2012 to Subsea 7 and which will be awarded to the market in late '12 and '13, like Lianzi or Ehra North (I don't know if it's us or not), are with margin which are better than Clov. We are back to the right momentum.

You have in the presentation… on page 17, the status of the completion of the project which, in fact, shows that a lot of our projects are being completed in '12, as we speak, and then the new project, when you look at the report, will be in completion more in offshore phase post '13. That's why we are… we said… we've been saying now for a couple of earnings calls that Africa next year will be seeing some less projects offshore.

One of the things to see in Africa, and, you know, I'm very pleased with the margin in Africa, I think it reflects the operation excellence.

Mick Pickup – Barclays

Okay, and just following up from that, you say that the medium term, longer term market looks as compelling as ever. I think what's become apparent this year is that your clients are verging on incompetent to predicting when they're going to award contracts. Delays I think have plagued us more this year than ever before. Have any of your clients actually realised that this is going to head and tried to commit to long term capacity?

Jean Cahuzac – CEO – Subsea 7

Yes, but, you know, sometimes they don't have the freedom to do it. I'm not sure freedom is the right word, but, you know, Exxon-Mobil and Ehra North, we know they are dying to launch this project with us or somebody else, by the way – don't conclude anything on my comment. Total Bloc 32 is a fast track project with 32 months for FPS delivery, and are pushing us and the competition to come with very aggressive plans mobilising as many people as we can from day one. I mean, at least a successful bidder will have to do it.

So, I mean, the IOCs had some frustration. Also, I know that they've been notified by equipment manufacturer that some of the equipment will not be there when they thought; it could be three months, six months later for this new project. But what we also think, which I think is encouraging, is the clients going to long term approach, long term partnership with a few of us and discussing long term programme for the most demanding projects or their last project or like we have seen in the North Sea. In fact, we are not seeing that decreasing; we are seeing that increasing, which makes me believe that they have faith in the future.

Julien Natixis – Natixis

If we look at your margin in Brazil today, it's close to zero. Okay, you have part of that from Guara, but that means even for the day ratekind of old fashioned contract, you get a 0% margin.

Jean Cahuzac – CEO – Subsea 7

Well, not really. I mean, I think you have to take into account some timing with some shipyards, planned shipyards, and other activities. But you are right that the overall margin of Brazil is significantly impacted by the Guara-Lula project. But that doesn't mean the PLSVs are at zero or negative margin.

Julien Natixis – Natixis

Okay, thank you.

Rob Pulleyn – Morgan Stanley

Two questions, if I may, again, just asking for a little bit of colour on two issues. First of all, you highlighted that the pricing environment continues to improve. Could you add a bit of colour as to how that compares to the last cycle? Are we back to previous prices in what you are signing today, which obviously will come through I suppose through at the end of 2013 and 2014? And the second was there was a reasonably large weight and capital movement this quarter. If you could maybe just give a little bit of colour as to why that was the case. Thank you very much.

Jean Cahuzac – CEO – Subsea 7

Yes, thank you for the question. I'm going to answer the first part and I'll let Ricardo comment on the second question.

When we talk about pricing environment, I mean we are seeing margins going up. And on the key project, the margin will I think match the last cycle. One other thing to be always cautious about margins is that you have to look at the portfolio of projects. So, if I talk about the North Sea today, I mean, good margin on newly signed projects, but if I look at epic projects with a large part of procurement, as we see in other parts of the world, I mean, the procurement part will be done with lower margin because we don't want to take unnecessary risk on that part. So, you have to look at the portfolio when you look at the margin.

On the low end of the market, if you take the low end of the [likely field], which can be addressed by some competitors like, for instance, DOF or others, I think there is more pressure on margin because of the additional supply of vessels and new comers. In a growing market, it's not a big concern for us. But if the market was to soften in the years to come, and we all know that although that's not part of the plan, it's always a cyclic business over a ten-year period, then on the low end of the market, there will be more pressure on margin, I think, that we will see. Not something which concerns me today, but it's something to watch in the future.

Rob Pulleyn – Morgan Stanley

Okay, thank you.

Ricardo Rosa – CFO – Subsea 7

Yes, as far as working capital is concerned, and it's… historically our working capital requirements tend to increase at this time of year because of the relatively high levels of activity that you see over the summer months, and we've seen, you know, continued growth and activity, not just there, but elsewhere, you've got to combine that, too, with the mix of projects and the timing that they find themselves in their cycle. We have, you know, a number of projects at present that are approaching completion. And at that stage, there is often a significant amount of variation orders and other areas of negotiation with the client as we true up the final aspects of the contract and agree the final billing. So, the working… so, these are the two main factors that drive the working capital and have driven the working capital this last quarter. This doesn't mean that we are, you know… not complacent about it. We are… remain focused on bringing it down and maximising the cash generation.

Jean Cahuzac – CEO – Subsea 7

Yes, just to add one bit of colour to that, it's not unusual when you come to the end of project in Africa where final approval in are needed from the national company, that takes a bit more time. I'm not… I'm not particularly concerned with it. It's business as usual. But it's true that sometimes it takes a bit more time, in Nigeria, in particular, to reach a conclusion.

Rob Pulleyn – Morgan Stanley

Okay, thank you.

Erik Tonne – SB1 Markets

Yes, hi, I was just wondering if you could provide some more detail on what kind of shortages you're seeing or your clients are seeing along the supply chain, because I may remember it wrongly, but I haven't heard your peers talk about the corresponding supply chain tightness. So, I was wondering specifically if you can elaborate, what type of subsea equipment and so on is actually facing pressure along the supply chain.

Jean Cahuzac – CEO – Subsea 7

It depends on the country, on the projects and on the suppliers, but without giving names of fields, there are four or five fields in the North Sea where we've been advised by the operator that they need a couple of months before they would move forward. And we had the same types of things on the last project in Africa. And again we're not talking about a long time; we're talking about three months, six months, but that explains some delays on the backlog and market award of new contract. And obviously, I mean, when you talk about Brazil and you have this overall very high activity of supply chain worldwide and you add to that the local content constraints, it's pushed to the right a few of the decisions.

I mean, that just puts even more emphasis on the need to have the size of the company, the resources to monitor what's happening once we sign that contract, to have people working with the suppliers and it's a key…it's a key part of what we are doing.

And, you know, when you look at the size of this contract and the resources which is both engineering, project management and follow up on supply chain, just to give a kind of flavour, if you look at BG Knarr and Martin Linge, which are not going to be in the final phase of execution in 2013, we can have around 230 engineers assigned total to this project in Norway on engineering, project management, supply chain and everything else. So, it'll give you, kind of, a magnitude of what is required to manage successfully this project. And part of that is working with the suppliers.

Erik Tonne – SB1 Markets

But is it more internal challenges with the oil companies with regard to engineering and project management staff or is it actually hardware which is, I mean, are you talking Christmas trees and manifolds or are you talking high spec pipe or tensioners or are there, sort of, specific parts of the supply chain where you're seeing huge struggles?

Jean Cahuzac – CEO – Subsea 7

I wouldn't say huge struggle, but it's on all the types of equipment that you mentioned. So, when I was referring to supply chain, I was referring actually to equipment. But you have a good point. I mean, I think the limitation which exists today in the industry on the human resources side is still there. And that's true for the industry as a service company but it's also true on our client side… on the client's side. And, you know, the fact that we are seeing a number of companies in the North Sea and Norway moving to epic contract I think is one of the reasons; it's that they believe that it's what they should do to ask the industry to integrate a bit more the work and everything else. And we like it. I mean, obviously, it's where… it's where we differentiate ourselves the most.

Frederik Lunde – Carnegie

Hi, I'm back. Just a final question, where do you think you are in the business cycle. And it sounds like your other parts in the value chain that represent the bottleneck not the serve capacity. And if that's the situation, does it make sense to add capacity in the serve market?

Jean Cahuzac – CEO – Subsea 7

Where are we in the cycle? I think nothing has changed. I think that the overall medium and long-term trend look pretty good. When we are talking about adding capacity, I think you have to put things in relative perspective. We're talking about adding capacity subject to contract awards on PLSVs in Brazil. We're talking about potential diving in the North Sea where today utilisation is at a very high level, probably the highest level we've seen for a while. And we're talking about enablers with a limited number of investments to match the growth if we were to go to construction, and, again, if we were to go to construction, there are still some decisions to be taken, then we were talking about three or four delivery.

In parallel, we have a model which works very well in Africa, which is the model of national content, where we do invest limited capex but in a cautious way. But continuous capex everywhere in the fabrication yard with our local partners and there are new frontiers which are coming and part of our forecast is to start investing in countries like Mozambique, for instance, where we see a very attractive market on the gas side, three-five years or more from now. So, it's an overall picture. And as Ricardo was saying, we're talking about average, so not necessarily concluding that you're going to see that in 2013-14, the future will tell.

Frederik Lunde – Carnegie

Thank you.

Jean Cahuzac – CEO – Subsea 7

Well, I would like to thank everybody for participating to this earning call and looking forward to discuss further in the future. Thank you.