

Title: Subsea 7 Conference Call – Acquisition of certain businesses of ECS

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Speakers: Jean Cahuzac (CEO), John Evans (COO), Ricardo Rosa (CFO) and Isabel Green (IRO)

Opening remarks

Isabel Green

Good morning. On the call today are Jean Cahuzac, CEO; John Evans, COO; and Ricardo Rosa, CFO. Before we begin, I need to remind you that this call may include forward-looking statements that reflect our current views and are subject to risks, uncertainties and assumptions. I will now hand over to Jean for his opening remarks, before we open the call for your questions.

Jean Cahuzac

Thank you, Isabel, and good morning everyone. As you will have seen in our press release today, we have announced the acquisition of a certain business of EMAS Chiyoda Subsea, also known as ECS, under a Chapter 11 Plan of Reorganisation. Our strategic investment in ECS, through the cycle, diversifies our global presence by adding established Conventional business in the Middle East. It also adds to our backlog under other selected projects worldwide.

We are able to grasp this opportunity thanks to the quality of our balance sheet, and our strong project management and execution capability. So, this call is intended to supplement the press release, which I will assume you have all received. So, without further delay, I would like to open the call and invite your questions.

Q&A

Phillip Lindsay, Credit Suisse

Yes, good morning everyone. Congratulations on the deal. I'll have two questions, and maybe a follow-up, if I could? The first question: when I think about the behaviour of this company through the last cycle, it always felt to me, as a smaller up and coming player, that perhaps EMAS didn't share the same level of discipline as the big players, or have the right level of risk management capability. So, I suppose my question is: how should we think about embedded margins of the backlog that you're acquiring? Presumably it's dilutive to the Group. That's the first question.

The second question is: can you talk about the partnership that you now inherit with L&T, in terms of – I'd like to understand better what skillset do L&T bring to the table, and how complementary is the partnership? Thank you.

Jean Cahuzac

Thank you for questions, Phillip. The first point I want to mention is that when we looked at this opportunity, we looked at it from a Subsea 7 perspective without changing our approach on risk profile and objectives. So, we went through a due diligence, obviously, within the limits of what you can do with the antitrust and competition law. And we have satisfied ourselves that the conditions under which we were taking some of the contracts of ECS were acceptable. So, we are comfortable there.

Regarding the L&T partnership: as you know, in Middle East the way it works with Saudi Aramco is that you are awarded an LTA and contracts are awarded on the back of this LTA. We are in a consortium with L&T, and the type of services that we are providing in Saudi Aramco are quite complementary. They bring fabrication and local expertise for this part of the world, which is quite complementary to what ECS had and what Subsea 7 has. The meetings that we had with L&T at senior management level show that we are fully aligned on our objective for this part of the world.

Phillip Lindsay

Okay, fine, thank you. And then maybe just a quick follow-up. There may have been an expectation in the market that you were after the *Lewek Constellation*, which was their flagship vessel. Looks like you're going to operating it for a short while on existing backlog; just wondering whether there's any optionality in place regarding this vessel? If not, what is likely to happen to that?

Jean Cahuzac

We have access to *Lewek Constellation* to fully execute the projects which we are taking as part of this deal. We looked at the opportunity of *Lewek Constellation*, but it didn't meet our criteria regarding financial investments and we didn't pursue this opportunity. I cannot comment on what are the plans of the bank which will own the vessel.

Phillip Lindsay

Understood. All right, thanks guys

Operator

And our next question comes from Fiona Maclean from Merrill Lynch. Please go ahead, your line is now open.

Fiona Maclean, Merrill Lynch

Thank you. I'd like to just get a better understanding of what type of physical activities have been taking place at this company in this region over the last few years, and what opportunities you actually see for new project awards and things like that?

And then the second question is around the fact that you've now started discussions with Chiyoda about working together more closely in the future: could you go into a little more depth around your thinking around that? Thank you.

Jean Cahuzac

Yes. I mean, just an initial comment on the strategic part of it, and I will let John answer on the type of project that company is going to be able to execute since we acquired ECS. The strategic move that we did, in fact, allows us to strengthen our presence or start a significant presence in the Middle East. It's complementary from a business perspective in terms of diversification of the business. It's also complementary because some of our existing assets which we use in conventional in West Africa in the past, vessels such as *Seven Inagha* or *Seven Antares*, can also be suitable for growing more in the Middle East with our existing fleet. So, from that perspective, it's spot on, on a strategic move.

Regarding the type of projects, and the potential co-operation with Chiyoda: John?

John Evans

So, the type of projects, Fiona, the three projects that they have at the moment: the first is Hasbah, which is very much a traditional LTA-type contract: shallow-water pipe-lay, shallow-water jackets and topsides, which will be fabricated by Larsen & Toubro and installed by ECS/Subsea 7. Large volume of work, but well planned and on schedule from what we can see at the moment. So, that looks positive.

There are two small packages of work; one called 17 Cranes which, as per the name, means the change-out of 17 topside cranes, using a large jack-up to make the change-outs, and Four Decks is again installing some additional decks on some of the platforms there. So, work that is well suited to *Lewek Champion*, the vessel that we'll be looking to take on a three-year lease to do this work, and it's very classical Saudi Aramco-type work, all awarded under the LTA-type agreement.

With Chiyoda, what we're looking at with them is to look at different areas of what we can do generally, in terms of areas of technology and engineering, to see if there's any areas of those spaces where, in time, some co-operation between the two of us could help.

Fiona Maclean

Great, that's very clear. Thank you very much.

Operator

And our next question comes from the line of Mick Pickup from Barclays. Please go ahead, your line is now open.

Mick Pickup, Barclays

Morning, everyone. Just a quick follow-up on Chiyoda. When you're talking about opportunities going forward, are you thinking about integrated topside and SURF projects, now we've finally seen one?

John Evans

I think we're very open minded to the question there. We have a relationship with KBR, which also provides us some access to that. We don't see much opportunity in the market generally for that type of linkage; we've seen much more requests in the market for the SPS and SURF to come together, Mick. But again, on certain projects with certain skillsets, we need the right partner combinations.

Mick Pickup

Okay.

Jean Cahuzac

And that could be the case in the Middle East; again, within the limits of other partnerships that we have.

Mick Pickup

And on the Middle East, have you had conversations with Saudi Aramco already about changing ownership?

Jean Cahuzac

Yes.

Mick Pickup

And there's no problems on that front?

Jean Cahuzac

We have received positive feedback. I think fair to say that they see the move as positive, in particular together with Larsen & Toubro, as I mentioned before; if we align with Larsen & Toubro, as we're trying to do. And we had positive meetings of senior management of Saudi Aramco.

Mick Pickup

Okay. And just finally, for my own clarification: this is certain parts of EMAS. What parts did you not want?

Jean Cahuzac

We looked at the parts of EMAS which were meet our criteria regarding risk profile and strategic decisions.

Mick Pickup

Okay, cheers. Thank you. Well done.

Operator

And the next question comes from the line of Rob Pulleyn from Morgan Stanley. Please go ahead, your line is now open.

Robert Pulleyn, Morgan Stanley

Hi, good morning gents. Could you maybe just help us a little bit more on how we should think about the value creation here, and the structure of the business you're buying? There was rather a large amount of debt sitting with EMAS, of which I think the filing states that the secured component would not be impaired. So, exactly how should we think about much liabilities and debt you are assuming as part of this deal, in order to try and figure out the value creation? Thank you.

Jean Cahuzac

Ricardo, do you want to answer the question?

Ricardo Rosa

Yes, good morning Rob. I think the first point to make is that when we've talked about consideration of less than \$100 million, we are not assuming any significant debt; we are not assuming any debt, in fact. The only assumption that we will be taking on in forms of liability will be those associated with the working capital that you normally associate with projects and project execution. And clearly that is linked too to the profile of our clients.

With regard to the secured debt that you referred to, the security was actually on the vessels, and as you can tell from our announcement, all we are doing is chartering vessels for pre-defined terms, and that's *Lewek Constellation* and *Lewek Champion*. So, that aspect is not anything to do with the part of ECS that we have actually acquired.

Jean Cahuzac

And maybe in addition to your comment, Ricardo, regarding the charters: as we mentioned before, the charter of *Lewek Constellation* duration is to complete some of the projects which require this vessel. We have a longer-term charter on *Lewek Champion*. *Lewek Champion* is a very good vessel to actually grow the business further in Middle East, and to some extent in Asia also.

Robert Pulleyn

Okay, thanks for the clarification. That sounds like a good structure.

Operator

And the next question comes from the line of Haakon Amundsen of ABG. Please go ahead, your line is now open.

Haakon Amundsen, ABG

Yeah, good morning guys. Two questions from me, please. First, if you can talk a little bit about how you absorb this business into your own? I'm thinking specifically about any kind of incremental potential restructuring needed of the EMAS organisation that you take on. And also, if you're able to use any of your own vessels, potentially those who are stacked on parts of the backlog? So, that's my first question.

And secondly, if it's possible to quantify or be specific on some of the incremental tendering activity this deal gives you in Saudi Arabia or other regions, please.

Jean Cahuzac

I will take the two last questions; I will let John answer on the integration of the ECS organisation. Regarding the existing backlog in Saudi Aramco, most of the work is executed by *Lewek Champion* that we are chartering. We are looking at the possibility to use also some of our assets instead of third-party assets that ECS had planned to do later in the execution of the project. As I mentioned before regarding the assets, *Seven Inagha* and *Seven Antares* are specifically well designed to operate in the Middle East, and when we grow this business on the way forward we see opportunities.

As you know, the project awards for Saudi Aramco are conditional to an LTA being in place. We expect now that ECS is out of Chapter 11 we will be given the opportunity to acquire more work on the back of the existing LTA, together with Larsen & Toubro consortium that we have. But we also have now a presence in the Middle East, and based on this presence we will look at extending activity in the Emirates in a broader way.

John Evans

In terms of organisational structure, it's very complementary in a way. Subsea 7 does not have a Middle East organisation per se at the moment, so we will absorb the Middle East structure that ECS has into Subsea 7.

In terms of the two deep water SURF projects which are being completed, essentially, during this year and the first part of next year, we will let ECS run as a standalone business working with our regions to complete those two projects, and then the rest of ECS will be integrated into the Subsea 7 regional structure. So, we have a transition plan agreed, and I can see it fitting in pretty well for us.

Jean Cahuzac

And John, these projects are expected to be completed –

John Evans

Back end of this year.

Jean Cahuzac

– yeah, end of this year, and for one of the projects, second quarter.

Haakon Amundsen

All right, thanks. And just a follow-up on the backlog here: have you changed any of the terms that were originally entered into in some of the contracts in the EMAS backlog?

Jean Cahuzac

Yeah, I cannot comment in detail, as you can imagine, but the terms on which we have entered to execute these projects meet the Subsea 7 criteria.

Haakon Amundsen

All right, thank you. That's it for me. Thanks, guys.

Operator

Thank you. And our next question comes from Frederik Lunde from Carnegie. Please go ahead, you line is now open.

Frederik Lunde, Carnegie

Thank you, and congratulations on a very good deal, it appears. Just curious in terms of downside risk: is this capped in any way if there should be operational issues, or is it limited to the legal entities you're acquiring? Or are there parent guarantees here from Subsea 7?

Jean Cahuzac

Regarding the legal entities, we are keeping the legal entities to execute the projects for Saudi Aramco. They have the licence to do so. We are not taking liabilities with the other legal entities. That's part of the Chapter 11 structure that we put in place, so I think the risk is very well under control there.

Regarding the projects: as mentioned before, we had due diligence done by experienced teams within the limit of the antitrust. We also compared the result of this due diligence with what we were hearing from the clients. We interviewed people, and we have a good level of confidence that there will be no bad surprises.

Frederik Lunde

That's great. And also on *Lewek Constellation*, I guess that's now being held by the banks or the secured creditors. Have you got any purchase options or first right of refusal to buy the vessel down the road?

Jean Cahuzac

No, we considered that the conditions for potential acquisition of *Lewek Constellation* did not meet our investment criteria at the present status of the downturn.

Frederik Lunde

That's great. Congratulations.

Operator

And the next question comes from the line of Christopher Møllerløgken from SB1. Please go ahead, your line is now open.

Christopher Møllerløgken, SB1

Yes, good morning gentlemen. Most of my questions have already been answered, but just a short on the LTA system in Saudi Arabia. Could you remind us of how long the current LTA is lasting, and when do you expect a potential renewal of that?

Jean Cahuzac

Yes, I mean you know how the LTA works. I mean, the first step is actually to be granted an LTA, and then as part of the LTA you actually bid the job. The present LTA is valid until 2021.

Christopher Møllerløgken

Thank you.

Jean Cahuzac

I would add that when you look at the programmes in the Middle East and the scenario on price of oil, etc., we see Middle East and Saudi Arabia as the growth area in the middle term.

Christopher Møllerløgken

Thank you.

Operator

And the next question comes from the line of Kévin Roger from Kepler Cheuvreux. Please go ahead, your line is now open.

Kévin Roger, Kepler Cheuvreux

Hey, good morning. Just one question, please. Just trying to assess the price you paid for the asset and the backlog: is it possible for you to give us a kind of range of which EBITDA will be generated by this \$300 million backlog due to execution in 2017?

Jean Cahuzac

Well, first a general comment. The Middle East market has profit margins that are well known with what is executed by some other companies in the Middle East. We expect it to be in that range. We don't comment on individual contracts, obviously. Regarding some more functional details, we will be a little bit more explicit at the Q2 earnings call.

Kévin Roger

Okay, thank you.

Operator

And the next question comes from the Mark Wilson from Jefferies. Please go ahead, your line is now open.

Mark Wilson, Jefferies

Yes, thank you. I'd just like to ask if there is a specific sign-off required against that LTA from Saudi Aramco? You said positive feedback, which I heard; just whether you do have to get sign-off?

And then whether the LTA covers – should we expect this to cover all offshore work around the Middle East, or is it quite specific to certain areas?

And the last point, Jean, if you could just talk about your previous history and your view towards Middle East: have you applied for these LTAs in the past, I wonder? Or maybe, what has kept you away from that area of the world? Thanks.

Jean Cahuzac

Okay, so I'll take the three questions. The last question first: we haven't worked in the Middle East for quite a long period. The strategy of Subsea 7, which was established 18 months ago, was actually to enter Middle East based on the evolution of the overall market that we saw. We were under the process of applying, as Subsea 7, for an LTA with Saudi Aramco, and I would say the feedback of Saudi Aramco was pretty good regarding this initiative. The fact that we had this opportunity to acquire the business of ECS in the Middle East in fact allows us to speed up the process, and start with a very good backlog and grow from there.

Regarding the agreement with Larsen & Toubro, it's at this stage limited to the LTA as a consortium of Saudi Aramco. That doesn't preclude to have a broader co-operation, but it's not been discussed in detail for the time being.

And the first question on the LTA; I'm sorry, I missed it.

John Evans

You wanted the LTA coverage, did you?

Jean Cahuzac

Saudi Aramco contracts in the Kingdom. I think we can take one more question before we stop.

Operator

Okay, and our final question comes from Amy Wong from UBS. Please go ahead, your line is now open.

Amy Wong

Hi, good morning and thanks for taking my question. It's just a couple of them. First with regards to the process of taking over these businesses. I know you had entered the debtor agreement early in the process, but can you comment whether there were other bidders – or so say, if that's correct term – for this business? Was it competitive, and what kind of criteria did the courts use to select Subsea 7 to take over some of these projects?

And then the second question is also related to the LTA. There has been a lot of talk that they're going to invite more players to the LTA, so can you just give us your thoughts on how you think that competitive environment is going to evolve over the next few years? Thank you.

Jean Cahuzac

I mean, regarding the process, we applied our very strict process in terms of looking at investment. We had a business case, we applied our criteria for return on the investment. The business case met these criteria, and the due diligence that we've done as well, as I've mentioned before, in terms of people, client meetings, etc., comforted us that we were taking an acceptable risk by

moving there. But we haven't dropped the ball on the risk profile, and again our financial criteria are set in terms of return on capital, etc.

Regarding the LTA, you're right that the Saudi Aramco has announced that they wanted to add more participants to the LTA process. The future will tell what happens there, but that's combined with more work in Saudi Arabia and more generating in the Middle East, based on the assumption on the price of oil in the foreseeable future, and even middle to long term. So, we believe that it's a very good opportunity. We had already in our strategy to expand our Conventional market activity that's today limited to Africa, to expand it to the Middle East.

Amy Wong

Right. Just to go back to my first question: I understand the process has gone through your own rigorous investment risk profile; my question was whether there were other competitors that would have come up and looked at these businesses, and actually had – whether you had to compete against them to win this part of the business, and how the court decided to award it to you?

Jean Cahuzac

We have defined what we wanted to get. We don't know exactly what was the process, if there were other competitors or not. I mean, that were trying buy ECS through the Chapter 11 process. We didn't take that into consideration. We knew what we wanted to get, and if we hadn't got it we wouldn't have got it.

Amy Wong

Great, all right. That's very clear, thank you very much.

Jean Cahuzac

Thank you. So, I would like to thank everybody for your participation and questions, and I look forward to talking to at the future earning calls in July. Thank you.