Subsea 7 S.A.

Subsea 7 S.A. Second Quarter and First Half 2012 Results

Thursday August 9, 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 second quarter and the first half of 2012 which ended on June 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. Year-on-year improved profitability was driven by increased activity in the North Sea, albeit mitigated by poor weather experienced early in the quarter. It was another good quarter in West Africa, Asia results were as per our expectations and as previously indicated scheduled dry dockings had a negative impact on Brazil. Also good results for SHL and Sapura Acergy Joint Ventures.

I am also pleased with our $ 8.3 bn backlog. I am not concerned that this figure is slightly down on quarter one. Our backlog remains close to record level and the present high level of tendering creates further opportunities for further growth. I remind you that the Guara Lula project represents approximately $ 1 billion revenue at zero margin over two years, but the overall quality of our backlog continues to improve as we remain disciplined in our approach for bidding new projects.

Another recent highlight is the progress of our plan to returning capital to share holders. The previously announced $ 200m share buy back has now been completed and a circa $ 200m special dividend has been paid. Veripos has been listed on Oslo Bors late July, distributed as dividend-in-kind.

So overall a good set of results for the second quarter – in line with our expectations

Turning now to the Market. We have not seen an impact from global macro-economic uncertainties on our clients' plans, albeit we remain vigilant. We still expect the present high level of bidding activity to translate to market awards later this year in particular in the North Sea, Africa and Brazil.

In the North and Norwegian Seas: no change in our overall views since our last earnings call. We continue to see a strong client activity. We see this positive trend in all our business segments including Frame agreements and Life of Field. We expect tendering to remain high in the coming months and order flow to the Marketto remain strong with improved pricing, especially in Norway.

In West Africa, here again, no change in our overall views since our last earning call. However, we have seen market award dates for some of the large projects in Nigeria, Angola 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. Offfshore operations for these projects will take place post 2013.

In the Gulf of Mexico, we are starting to see signs of an increase in activity following the he recommencement of the award of drilling permits. We should see more contract awards to the market in late 2012 and execution in late 2013 and 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. Pricing conditions remain more challenging than in other territories. Our approach is to remain selective on the projects we tender to ensure we achieve the right returns.

And finally - Brazil. There has been a lot of comments over the last few months regarding Petrobras revised activity plans as some of their projects are expected to be re-scheduled. There are still a large amount of approved projects and this does not change our positive views on this market. We continue to see more opportunities ahead, in traditional deepwater in the Campos basins, as well as with pre-salt developments. More large EPIC projects for pre-salt developments are likely to come to contract award in second part of 2012 with operations in 2014 and 2015. After which a further round of tenders for the next pre-salt development is still expected to be issued by the client in 2013. In 2012, we expect to see further PLSV contract awards to the market both for existing contracts renewal and new vessels to be built in Brazil.

So in summary – we have seen a continuation of the positive momentum that we talked about in March. With that, I'll hand over to Ricardo to run through the financials.

Ricardo Rosa

Thank you Jean, and good afternoon everyone. The results of the second quarter 2012 were encouraging with higher revenue and an improvement in profitability compared with the both the prior quarter and the same period last year. The quarter has also benefited from foreign exchange gains and the sale of our NKT Flexibles business. I will now provide you with further colour on the consolidated income statement and the Territories' operating results for the quarter as well as comments on the backlog, balance sheet and cash-flow. I'll wrap up with some updated guidance for 2012.

I will start with slide 8 and the income statement highlights. Revenue for the second quarter was $1, 484 million, up $30 million on the prior quarter and $149 million above the same quarter last year, Net operating income of $246 million exceeded the first quarter 2011 by $36 million largely due to project mix and improved vessel utilization at 87%. We also recorded a gain in the quarter of $220 million on the sale of our 49% interest in NKT Flexibles. This sale, together with net foreign exchange gains of $44 million, boosted net income before taxes to $504 millon and net income to $411 million. Adjusted EBITDA was $326 million or 22% of revenue being 1 percentage point below Q2 2011. Excluding the gain on sale of NKT Flexibles, adjusted diluted earnings per share was $0.52 on a reduced number of average common shares in issue following the share buy-back program.

Turning to slide 9, I'll now run through the performance of the Territories. The North Sea, Mediterranean and Canada delivered revenue of $713 million and net operating income of $93 million for the quarter. Although activity improved compared with the first quarter, it was affected in the North Sea by initial weather-related delays.Good progress was made on a number of projects including Visund Sør, Jasmine, Skuld, Alta and Draugen. Life-of-field operations under frame agreements, including those with Shell, DSVi, Statoil, ConocoPhillips, Total and BP, were executed satisfactorily throughout the quarter.

Revenue for Africa and Gulf of Mexico was $538 million, with net operating income of $113 million. There was good progress on a number of projects, including CLOV, Oso Re, EGP3B, and Block 31PSVM with the latter three expected to complete later this year. Although the Territory's results improved marginally compared with the first quarter, both revenue and operating income were down, as expected, against a particularly strong second quarter in 2011.

Revenue in Asia Pacific was $85 million, in line with the prior quarter, and net operating income, at $27 million, was up $23 million on the same period. The quarter benefitted from activity on Liuhua and Montara projects, together with a strong contribution from the SapuraAcergy joint venture which included a commercial settlement for re-scheduling part of the Gumusut project.

Turning to Brazil, revenue was $147 million, with a net operating loss of $4 million. Five of the seven vessels operating under long-term service agreements with Petrobras achieved high utilization levels during the period, However the Seven Phoenix and Normand Seven were in scheduled dry-docking for part of the quarter. The Guara Lula project continued to be executed in accordance with the revised plan and, as expected, made no contribution to the Territory's net operating income.

Lastly, $17 million of net operating income was generated at the Corporate level in the quarter, driven both by a positive contribution from the Seaway Heavy Lifting joint venture and lower post-merger integration costs..

As shown on Slide 10, administrative expenses were $77 million, down $14 million on the prior quarter and $20 million on the same period last year. This was largely due to lower reorganization and integration costs totaling $2 million in the quarter, in part due to phasing. Our share of net income from associates and Joint Ventures was $33 million and, with the sale of NKT Flexibles, was generated almost entirely by SapuraAcergy and Seaway Heavy Lifting. . Finance costs, net of investment income, were unchanged at $-6 million compared with the same period in 2011 with higher capitalized interest during construction of the Seven Borealis offsetting higher financing expenses in the quarter. Other gains included the $220 million gain on sale of NKT Flexibles and net foreign exchange gains of $43 million due to the strengthening of the US dollar. Excluding the impact of the $220 million gain on the NKT Flexible sale, which was tax exempt, the tax charge was $93 million, giving an effective tax rate of 32.8% for the quarter. The rate for the quarter was in line with guidance of a 32 % to 35% underlying effective tax rate for 2012.

Turning now to slide 11, I'll comment on the cash flow and balance sheet. Cash generation from operating activities during the first half of this year was $124 million despite an activity-related short-term increase in net operating assets of $ 309 million. Net cash generated by investing activities was $15 million reflecting capital expenditures totaling $342 million during the 6 month period offset by the proceeds of $343 million from the sale of our interest in NKT Flexibles. Net cash used in financing activities was $207 million and was largely driven by the $191 million disbursed under our $ 200 million share buyback program, mainly during the second quarter. The buy-back program was completed on 6 July with approximately 8.6 million shares acquired for an average price equivalent to USD 23.30 per share.

Our balance sheet at 30 June was robust with a net debt position of $145 million. Our liquidity position was healthy with a cash balance of $752 million supplemented by an unutilized bank facility of $ 1 billion. On 5 July 2012, we distributed $200 million in the form of a special dividend of $0.60 per share. This was followed on 24 July by the distribution-in-kind of shares in Veripos Inc to our shareholders. Veripos has since been listed on the Oslo Stock Exchange effective 26 July. These distributions, combined with the share buy-back program, reflect our continued focus on our core business and our desire to deliver returns to shareholders.

Turning to slide 12, I will complete my comments by updating our previous guidance. Firstly let me say a few words on backlog which, at $8.3 billion has been depleted by $400 million since the first quarter-end. This reduction was in part due to $200 million in adverse foreign exchange movements. New orders in the quarter amounted to about $546 million (of which a contract for the BG Knarr in the North Sea was the largest). This was supplemented by $750 million in contract escalations in the same period.

Our multi-year backlog gives visibility to our revenue stream and we expect to deliver adjusted EBITDA for the full year 2012 broadly in-line with consensus expectations. I want to highlight, however, that the Guara Lula contract, which represented approximately $1 billion in backlog is forecast to be one-third completed in 2012 with the balance mainly recognized in 2013. As indicated previously, there is no gross margin projected with this revenue. We expect the contribution from JV's to be approximately in line with last year's $74 million. Our projections for total capital expenditures remain unchanged, ranging between $750 million and $850 million. Of this approximately $450 million relates to our new-build vessel programme, $150 million to planned dry-dockings and $150 million to $ 200 million to other items.

We expect administrative costs to average between $80 million and 85 million for the remaining quarters and we have lowered our full year estimate for integration costs to approximately $30 million (of which we have incurred $14 million in the first six months). We expect finance costs, net of investment income, to range from $25 million to 30 million but we have revised downward our depreciation and amortization projections to between $340 million and $350 million reflecting timing of expenditures and exchange rate movements. Lastly, we re-affirm the forecast range for our underlying effective tax rate at 32 % to 35%. With that, I'll 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 outlook. As Ricardo already told you, we expect 2012 Adjusted EBITDA to be in line with consensus expectations. Looking further out :in the North Sea, we expect to complete this year most of the low margin activity awarded in the previous years. So overall both top line and margin in this region should improve in 2013. In Africa, the delays in market award of some of the large projects in Nigeria and Angola will results in these project operations for taking place in 2014 rather than 2013 as initially thought. In Asia, we expect our Joint Venture Sapura Acergy to start operations on the Gumusut project late 2013. In Brazil, the opportunity exists to renew the four PLSV contracts in the third and fourth quarters of 2013, this is still subject to successful negotiations with Petrobras. We expect to be in field installation on the Guara Lula project, but as mentioned before , we do not expect this project to generate positive margin.

Before I conclude on my comments, a few comments on our strategic objectives. In line with our focus on core business, divestiture of NKT Flexibles has been completed. Veripos has been spun-off. 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. Many of you had the opportunity to visit our new global enabler the Seven Borealis a few months ago. (the picture page 15 shows her in transit to Europe). This Borealis construction project is a success as the vessel will be delivered within budget, on time for the CLOV project. Meanwhile, we recently acquired a 50% stake in the Normand Oceanic which was previously on long term charter . We continue to strengthen our global engineering and project management capabilities with more than 400 newly engineers who have joined the company since January 2012. Our new office in Oslo is now fully operational and we plan to run our first project from this office for Statoil.

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

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Ryan Kauppila – Citibank
Hey. Good afternoon. In West Africa, just wondering if you could discuss the competitive environment you're seeing around these projects that hopefully are awarded in the second half of 2012?

Jean Cahuzac
Yeah. Thanks for your question. West Africa is an area where there are two driving factor in the market. The first one is the size of the project, which requires a lot of engineering, project management resources and also associated vessels to the project. The second factor which is very important in West Africa is the local content that we can demonstrate when we execute this project and Subsea 7 is very well-positioned. So in terms of competition, most of these projects are executed by, I would say, the first tier of the contractors, our self, Technip and Saipem. Regarding the competitiveness of Subsea 7, I think we are very competitive. We know how to operate in this part of the world. We have the resources. We have the local content, so we are very well-positioned.

Ryan Kauppila – Citibank
So we shouldn't expect any material difference in pricing in these early contracts?

Jean Cahuzac
No. There were very little contracts awarded in 2009, 2010, 2011 and the contracts which were awarded at the time like CLOV was awarded a lower margin than those contracts awarded in 2007 and 2008. But we think that there are more contract coming to the market and, therefore, profitability should improve.

Ryan Kauppila – Citibank
Okay. Great. Thank you.

Phil Lindsay – HSBC
Yeah. Hi there, guys. Couple of questions. First one is on capital structure. It looks like you'll be moving into a period of lower capex after the delivery of the Borealis and I'm there may be opportunity, as you mentioned, for further investment in PLSVs in Brazil. But is there anything more in terms of sort of flagship vessels that you are considering or do you think that you've got ample capacity to handle the strong growth forecast for the market? And just a sort of follow-up to that, if we are moving into a period of lower capex, the way the free cash flow ramps up in the coming years will leave you with a very inefficient-looking balance sheet, so I just wonder at what you do, what you plan to do to address this. Thank you.

Jean Cahuzac
To answer the first part of your question, post merger, the way I look at our fleet that we have a fleet from a technical which is very, very suitable for the future market growth that we see from a technical perspective, we have a combination of the different technology. So from a technical perspective, we can execute with the fleet for the projects that we have identified for the years to come. So additional capex that we may decide to spend will be related to the growth of the company as we see more activity around the world. So the additional capex will be related to growth not because we have specific technical needs to do it. And we have opportunities of going in different part of the world, so I would not exclude that at the right price we do the right investments with the right financial return for the shareholder and that we invest in the future for some additional vessels.
Regarding the approach of the PLSV, the PLSV will be linked to long-term contract with Petrobras. One of the things which is required for this new PLSV is the local content apparently should be built in Brazil. It's something that we are reviewing. If we want to go ahead with additional PLSV within Brazil to be on the condition that we are comfortable that the solution proposed by local shipyards are adequate to meet schedule and budgets and we are still working on that. But in terms of capex, we definitely have what we need in terms of the technical certification to meet the requirement for future goals. We may decide on a limited manner to do further investments. Do you want to comment on the balance sheet?

Ricardo Rosa
Yes. Phil, I'll pick up on your question about our balance sheet which you have indicated in your view as inefficient. I mean I would argue that it's conservative rather than inefficient. And I think we need to maintain a conservative balance sheet in view of the relatively volatile nature of our business and the risks associated with managing large engineering projects. Jean has given you some indication of the capex opportunities that are out there. And clearly, assuming that they meet the financial criteria that we've set for investments, I mean there could be some significant reinvestments in our business in value adding projects. So I think we clearly bear that in mind when we look at our projected cash flows over the coming years. We also have some debt that is on the balance sheet of joint ventures that are not today consolidated and we monitor that as part of our overall view of our debt position. Lastly, we do have the converts which are maturing in 2013 and 2014. Today, they're in the money but our share price does move in and out. And all these factors is are causing us to monitor closely what we should be doing and we'll be addressing them in the coming months with the board.

Ian Macpherson – Simmons and Co
Hi, thanks. Jean, we are accustomed to hearing that project delays are a fact of life in Africa. And so I just wanted to put your comments today in context in terms of how much incremental slippage you're seeing relative to what we've talked about last quarter and the quarter before, just to be clear on what's changed?

Jean Cahuzac
We still see the same willingness of the IOCs to go ahead with the project. It happens sometimes in Africa, there have been some delays which relates to some local approval, et cetera. But we expect these last projects to be awarded to the market in the coming months. Our views have not change. It's a question of delays by a few months, nothing else. I think the fundamentals of the market remained very good and we still see the same momentum for these projects to go ahead. When when I talkabout West Africa, if I refer to Nigeria and Angola these projects should go ahead before the end of the year. But there's a long list of projects which should come to market award in the months to come, some of them before the end of the year, some of them early 2013. So our view on these markets hasn't changed. I mean, I'm still comfortable and confident about the West Africa market.

Ian Macpherson – Simmons and Co
Okay, thanks. And then unrelated follow up. Brazil - there's more going on there than just the Guara Lula contract, you have a negative margin this quarter and just about breakeven for the year. Can you shed some light on what else is impacting your margins there this year and what the past quarter is for profitability in that segment?

Jean Cahuzac
The result in 2012 and 2013 will continue to be impacted by Guara Lula. We had this quarter a fair amount of shipyard downtime and shipyard costs. And I think we are going to see up to the end of the year, I mean, the same trend. In 2013, Guara Lula will be in operation. As we said before we're on track with the revised schedule, but the project will - is likely to be still at zero margin. And the renewal of four PLSVs in Brazil, existing PLSVs is expected in the second part of 2013, namely the Seven Phoenix, the Normand Seven and the K3000. So I think we are in a period of stability of lower margins in Brazil, which should go - the trends will change when we renew this PLSV contract and once we execute the Guara Lula project.

Gøran Andreassen – Platou Markets
Due to delays in award of some large West Africa projects, you now expect offshore execution for these potential projects to start in 2014 rather than 2013. If you take into account what you delivered in the first half of 2012 in that region, it was just north of 19% margin. Could you say anything regarding your expectations for margins in 2013 in West Africa based on that?

Jean Cahuzac
It's too early for us to comment on 2013. There are still a number of moving target. We were seeing operations in the last part of 2013, now we are now saying that with the operation post-2013, we are talking about a couple of months delay. We're not talking about very significant delays in this project award but it may switch from 2013 to 2014 as far as offshore operation is concerned. But again, it's too early to comment in a more precise way on 2013 reserves, it's too early in the year.

Gøran Andreassen – Platou Markets
Okay. Just a follow up on West Africa though, you - Technip indicated that in its second quarter conference call but they expect to see award of Angola projects before they see award of any major material project. Do you share the view on that?

Jean Cahuzac
To some extent, I think I share this view. I mean, there could be a project awarded in Angola before Nigeria but - I mean if I look at the different project, I'm talking about project awarded to the market, not necessarily to Subsea 7 but I mean you have

Lianzi in Angola, which I think are very close to be awarded. Erha North is likely to be awarded before the end of the year too, but you could also mention some other project Egina which will be probably be a bit later but maybe still in 2012 or beginning of 2013, so it's a mixed bag but it's not only Angola. I think it looks good on the West Africa Coast, generally speaking.

Gøran Andreassen – Platou Markets
Yeah. And then my final question, if I may, your net order intake or your backlog was somehow impacted negatively by FX. But still if you look at what you announced in the quarter and then your sort of unannounced orders seems to be down quite significantly from the previous quarter. Is that a trend that we should expect to see continuing? Or was it just a one-off quarter in terms of unannounced work?

Jean Cahuzac
I wouldn't focus too much on a single quarter result or single quarter trend. In our business, it's not unusual to see what we've seen in this quarter. There's the timing of contract or it's always lumpy and difficult to predict. When I look at our backlog today, I mean I'm pleased with our backlog. I mentioned before that the quality of the backlog is improving. The overall value of the backlog is close to record level. We have the right backlog balance between epic lump sum on one side and direct contract on the other side, I mean roughly 70% lump sum EPIC and 30% direct that can vary. But I think overall, I'm pleased with that. And when I look at potential growth of this backlog, I mean, we are in a growing market. I mean the signals of the market remain pretty good in spite of the macroeconomic situation. So, this backlog should continue to grow in the future. I wouldn't look at it on a quarter-per-quarter basis, definitely.

Rob Pulleyn – Morgan Stanley
Hi, good afternoon, gentlemen. Two questions, if I may. First of all, I know there's been a few questions on this already, but on AFGOM margins, obviously, with the project scheduling you've been talking about and the unfortunate delay in West African contract award so far, it seems like that high margin profit recognition is going to split into 2014. Could you give a little bit of color of whether the margins we've seen in the first half of the year in AFGOM are what we should expect through the rest of 2012 and 2013 or whether we should see a marked improvement or indeed deterioration? That's the first question. Second question, again, on unannounced order intake, could you give us a little bit of color of which regions that actually came from? Obviously, I think quite a few people find that quite interesting. Thanks very much.

Jean Cahuzac
Okay, to answer on your first question, I must say that I'm very, very pleased with the execution of the project in Africa. And I think that we are able to execute in a consistent manner the projects in Africa and that's shown in the results. There is, especially the large project, all around the continent. Regarding the margin, the margin is also conscious of the timing of some of the projects. And we are going to a number of projects in AFGOM which come to completion to 2012. We should take EGP3B, for instance, or Block 18 GEL or projects like that. It's too early to talk, to comment on the timing of the execution of some of the project in 2013. That's why I'm hesitating to be specific on the margin. But the new projects which were recently awarded or the projects that are going to be awarded to the market in the future are going to be with better margins. What will be the figure in 2013 on margin? It's too early to comment on that. Regarding the additional work coming from existing projects and variation order, it's not a new thing. We've seen that in the past. And if you look at -- if you compare our North Sea with AFGOM, I would say it's roughly half-half in the North Sea and AFGOM. And then when you look at some additional work with i-Tech, additional work in terms of with some additional vessels, I mean it's probably the third of the total.

Ricardo Rosa
Jean has referred very much to the escalation element which I've indicated was aggregated $750 million. And as Jean said it was evenly split between AFGOM and the North Sea with a contribution from the i-Tech project, the i-Tech product line.

Mick Pickup – Barclays
Good afternoon, gents. A couple of questions, if I may. I'm sorry to harp on about West Africa margin. I'm not talking about going forward. Correct me if I'm wrong, but I'm pretty certain that the message 12 months ago was very much along the lines of we've got less offshore next year and the margin should be coming down and it's held up remarkably well. I assume you're saying that it's it's just execution, but it seems surprisingly high. I'm just wondering if you ever think that's going to come off. Secondly, in North Sea, I know you have the remarkably strong Q1, but I've never seen a Q2 margin in offshore lower than the Q1 margin. Can you just tell me why we've seen that negative margin move in that business? I know it's improving year-on-year, but certainly, I've never seen a 2Q less than Q1. And then, finally, just on the integration cost, I think you did $12 million in Q1, probably means you've only done $2 million this year. Are we coming towards the end of that? Is it just phasing? And given we are probably doing both of those, any update on what you think the benefits are thereof? Cheers.

Jean Cahuzac
Thanks, Mick. Let's start with the North Sea. The quarter was affected at the beginning of the quarter with some weather-related issues. But I would say, overall, we still see in 2012 and we'll continue to see in 2012 the phase out of contract with lower margins which were awarded in the previous year. And that dampened the overall results of the North Sea. Most of these contracts should be behind us in 2012, so that's encouraging for the longer term. When you look at AFGOM, what we had said is the first part of the year would be stronger than the second part of the year for AFGOM. And the results in the first half have been very good as you stated. What we are also seeing is that some projects, in fact, have been executed faster that we initially thought. And we may complete this year some of the projects that we thought would have been completed in the Q1 2013. But things are going very well in this part of the world.

Regarding the cost of the integration, there is a question of the timing. I mean we had $12million in the first quarter, $2 million in the second quarter, $14 million year-to-date. We expect that will be slightly lower than the values that we have announced at the beginning of the year. I mean, total year-to-date should -- total for the year should be around $30 million.

When we talk about the overall synergy, we said that on a running basis, we would achieve at a minimum of $100 million a year starting January 1 January 2013. We will do at the minimum, I think we will exceed this overall value. Some of the synergy have already been in the number of 2011 in a limited manner and in a more effective manner in 2012, balanced by the integration cost. 2013 there will be no more integration cost, so we should see the advantage of the positive impact of the synergy.

Mick Pickup – Barclays
Okay. Thank you very much, Jean.

Fiona Maclean – BAML
Yes, it's Fiona here. I have a couple of questions, please. The first one is on the Sonamet deconsolidation. It's hard to believe that we're still talking about this two years after you announced it. It's still available for sales. So could you just give us an update on exactly what is going on here? Is it going to happen? Is it not going to happen? Is it a change, how you classify that? And then I'll come back to my second question once I've got the answer. Thanks.

Jean Cahuzac
Well, on Sonamet, yes, it's going to happen. I must say it's – frustrating -but it's going to happen. When is difficult to say, but we expect that to happen in the months to come. I was at the board meeting with our Sonamet partner, and I think they are moving ahead. So no change there.

Ricardo Rosa
Fiona. I think Jean has summed up the reason why we are keeping sort of the disposal of the 19% interest in Sonamet in assets held for sale is because everything indicates that the transaction will take place within the next 12 months and it's been reaffirmed at the recent board meeting. I think it's just an issue of some administrative holdups that are going to...the intention is still very firmly there. And it's on that basis that we believe that it will take place and have kept it classified as such.

Fiona Maclean – BAML
Okay. And then in terms of my second question, I wanted to get a bit of an understanding on the recent developments in Brazil. You've gone a bit quiet on the progress on you facility there and could you just give us an update on how much that facility is going to cost you and when you do expect to be able to start delivering.

Jean Cahuzac
Yeah. Well, first, maybe an update on the timing of the projects in Brazil. We believe that Petrobras is going to go ahead to award the market up to four fields this year, probably two initially and then two later in the year. So things have not changed. I mean, we still see this momentum. As we mentioned before, for this pre-salt project, we have assumed that we would not get a license in Paraná and we have a different option to use spool base in Brazil. In short term, to continue with the Ubu base where we are executing the Guara Lula project, so that's option one. Option two would be to build a spool base on the LLX land and facilities, and an announcement has been made by LLX that we had an agreement in principle to do something if we wish to do it. And we are still in the discussion with Paraná. The thing that we are making sure is that when we make a proposal to Petrobras that we aren't making the same mistake that we made for Guara Lula. In other terms, we are not assuming anything. We are pricing our project in terms of cost and in terms of scheduled execution with what we have in hand. And Petrobras fully understand that and fully supports that because it's also their interest to know exactly what the schedule of the project is. So going in the right direction, but again in a very cautious way, we are preparing now, preparing all these new projects in a very cautious way. And we're not taking unnecessary risks.

Andrew Dobbing – JP Morgan
Yeah, good afternoon, a couple of questions, please? First of all, can you give an idea of the share of your North Sea fleet that's on the spot market at the moment? And are you expecting to increase that exposure or indeed move any vessels into the

North Sea region? And secondly, you mentioned some frame agreements you have in the North Sea, is that sheltering you from the pricing power that, I guess, you're seeing enough market at the moment? Thank you.

Jean Cahuzac
Well, I think when we talk about frame agreements, I mean related to Life-of-Field and some different intervention like construction operation, maybe something I want to clarify about the backlog with frame agreement is that we don't announce in our backlog the value of theoretical frame agreement. We put in the backlog only work which have been signed off by the client. So, the potential of frame agreement is higher than what you see actually in the backlog. Some of our competitors, I think, are doing it in slightly different way. And so I wanted to highlight that. I think the second thing about the frame agreement is that there is negotiation and discussion about updated rates as part of this frame agreement. And the value of this frame agreement comes also from the pools who work which is generated by this frame agreement in terms of repair work or additional staff operation, where the real upside is for the margin. This 30% day rate type of revenue, includes this frame agreement and are important for us and we're quite pleased to have them. During the good season we have up to 26 vessels working in the North Sea. And I don't have a rule to say that x percentage of the fleet will be in the North Sea. It depends where opportunities are and we relocated the fleet as we quite do capture the best opportunity around the world. So, again we have flexibility post-merger with the size of the fleet to move the vessel around, not only between U.K. and Norway but also between the North Sea and other part of the world.

Andrew Dobbing – JP Morgan
Thanks very much.

Kristian Diesen – Pareto Securities
Hey, good afternoon. Jean, just back to Brazil, you touch upon it in terms of bidding for new projects. But given the historical margins you've had there and the Guara Lula projects that's currently running at zero margin, what are you doing different this time than previous tenders?

Jean Cahuzac
Well, we are taking this project in a very different way. I mean, the first thing is that as I mentioned before I mean we are not making assumptions on environmental license and availability of spool base or logistic basis and we priced it according. And I think the second thing is that we have taken from a term and conditions perspective, a position which where we qualify a number of terms with Petrobras contract to mitigate better the risk and also balance better the risk between Petrobras and ourselves, in particular with supply chain. And then the last point is that in terms of organization of this project I mean obviously this project are run from Brazil. That's where Petrobras is. But we have also reorganized the project with a significant outsourcing, internal outsourcing over engineering and project management in all their worldwide center and in particular, in Paris in France. So, I'm comfortable that if we were to win one of these pre-salt field developments, it will be done and executed with the right margin.

Kristian Diesen – Pareto Securities
And that is international margin?

Jean Cahuzac
Yes it is international margin.

Kristian Diesen – Pareto Securities
Just a follow-up on West Africa; the timing of the major awards there are mainly in Nigeria and Angola. Are those contingent upon the petroleum bill in Nigeria and the elections in Angola coming in place or is it other factors, that's that?

Jean Cahuzac
No. They are not contingent to the previous bill because, in fact, the tax rule which applies on contract like Erha North or Egina is the oil tax rule, so all the other projects, you're right, have been put in hold waiting for the new bill. But Erha North and Egina, in particular, are going to go ahead. We don't see an impact in -- we don't expect an impact from the elections in Angola. Angola is a very stable country.

Kristian Diesen – Pareto Securities
Okay. Thank you.

Amy Wong – UBS
Hi, good afternoon. Just a couple of question. The first one is in your market overview comments, you highlight the Asia Pacific market. I know it's one of the smaller ones, but you're still highlighting that the pricing conditions in that region remain more challenging than other territories. So can you give us a bit of flavor of what's different in that region? Are you seeing more startups or local competitors? And just give us some idea why the present conditions are more challenging than

other regions. And my second question is on your dividends. You put in a special dividend at the end of last year. You did say it was special, but just wondering what you're thinking about as we move towards the end of the year about putting that as a normal regular dividend. Thank you.

Jean Cahuzac
Okay. I see the same trend as in other parts of the world, there is an improvement at the overall market in Asia, but not at the same pace. There are not as many projects coming to award to the market as in other part of the world: Africa, Brazil and North Sea. Just to name those. So in fact there are projects coming in Australia, Indonesia. But because there are less projects than in other part of the world and because the barrier of entry are also a bit less than area like Africa, no need for local content for instance, the level of margin although they are improving is not yet, in our, opinion at the same level as it is in other territories for all the project.And that's why we are saying that we are selective on our targeted project in Asia, and we actually beat other project where we have a differentiator, mainly a technology differentiator, all. So we can grow Asia, but it will be at a lower pace than other parts of the world.

Regarding the return to shareholder and the dividend, specifically the dividend. I think the first I would like to say that when you look at the return to shareholder which have been implemented or achieved since the beginning of the year, it's very significant and I think it shows the confidence of the board has on the market and the position of Subsea 7 in the market. And so that's the point number one. I think the point number two is that the position of the board has always been the same. I think we believe that in the growing market, there will be opportunities or could be opportunities to actually grow the company in a profitable way with the right return to shareholder. And that may lead to some investments. If such investments were to be done, again, as in the right condition, that would first on the list. And then taking a cautious approach in terms of management to the balance sheet, the board will look at how to return excess cash to shareholders. And that can be done in a different way and that is being reviewed and will be reviewed in the future by the board as they did at the beginning of 2012. So no change in the overall approach, it's difficult to say what will be the timing and optimum solution, the board will review that in decide later.

Amy Wong – UBS
Thank you very much.

Frederik Lunde – Carnegie
Thank you. Firstly, following up on the previous question, you now sold NKT Flexibles and a spin of Veripos, do you view i-Tech as a core business moving forward?

Jean Cahuzac
I think it's a nice business to be in. There is, at the core business like SURF or Life-of-Field or conventional in Africa, so its not as core, I would say i-Tech is probably more complementary to our core business and core business.

Frederik Lunde – Carnegie
Final question on my side is still in the North Sea, and this has taken half of this year. You've had a bit of an unusual season pattern loss a couple of quarters. You had quite a strong Q4 last year, soft Q3 last year, then a fairly decent Q1 this year, and then a fairly soft Q2. Beyond global warming, is there anything else changing in the North Sea market explaining this change?

Jean Cahuzac
No. I think when you look at Q4 and Q1, I think it's what the need for the operator who are late on their project to actually continue with very high activity and take the risk of the weather. And we had in fact, I would say, very high utilization of the vessel at the end of last year and at the beginning of Q1. So that explains to some, to a large extent I would say the good results that we had in the North Sea compared with some other years. What affects our results as far as margin are concerned are the contracts that we are phasing out this year which were signed at lower margin in the previous year, is by no means an indication of the softening market or market going in the wrong direction.

Frederik Lunde – Carnegie
Excellent. Thank you.

Erik Tønne – SB Markets
Yes, hi. Thanks for taking my question. Then two questions, if I may. Briefly on the market and tendering volume, just percentage-wise, roughly, how much would you say that the industry tendering volume is up this year or this quarter compared to one year ago? That was the first question. And my second question is on CLOV, I was wondering if you have already received escalation orders or variation orders on CLOV compared to the originally announced scope on that contract?

Jean Cahuzac
Yeah, let me start with CLOV. CLOV is going to be in operation in 2013. I would say that overall the escalation on CLOV are on the low side, since that Total didn't have a requirement for reservoir reason or other reason to increase significantly the

scope of work. So, it's the last project which is going to be more or less in line with what we thought initially as far as the size is concerned. Regarding the backlog of the tendering activity, we've seen a significant increase of tendering activity from a global perspective in 2012 compared in 2011. How will that translate in backlog depends on the timing and the success that we have on this very large project. We see projects which are now north of $1 billion in different parts of the world and that can affect a lot the overall impact and the timing of the backlog. But definitely, I mean, the tendering activity is increasing significantly and remained at a high level, in particular in the North Sea but also in Africa and Brazil and picking up in the Gulf of Mexico to some extent.

Erik Tønne – SB Markets
But if you would try to quantify would you say it's up 20% compared to the same time last year or is it up 50%?

Jean Cahuzac
It depends on the geographical area, and it's well -- in between these two numbers, depending upon the geographical area

Erik Tønne – SB Markets
Okay, excellent. Thank you for taking my questions.

Jean Cahuzac
Well, I think we've taken the last question. So, I would like to thank everybody for participating to this earning call. It's been a good quarter and we are confident in the future, so I'm looking forward to talking to you at the next earning call. Thank you. Bye.