

## **Subsea 7 S.A. Second Quarter and Half Year 2011 Results**

**Wednesday August 10, 2011**

### **Speakers**

- Karen Menzel – Investor Relations Director
- Jean Cahuzac – Chief Executive Officer
- Simon Crowe – Chief Financial Officer

### **Operator**

#### **Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Subsea 7 S.A. Q2 and Half Year 2011 Results conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by question and answer session, at which time, if you wish to ask a question, you will need to press \*1 on your telephone keypad. I must advise you that this conference is being recorded today, Wednesday 10th August, 2011.

I would now like to hand the conference over to your first speaker today, Karen Menzel. Please go ahead, madam.

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### **Karen Menzel**

Thank you, and good afternoon. Joining us on the line today are Jean Cahuzac, our Chief Executive Officer; and Simon Crowe, our Chief Financial Officer. Today, we are presenting the results for the second quarter and half year 2011, which ended on 30th June 2011. The results announcement can be found on our website, together with the presentation slides that we will be using during this call.

Before we start the presentation, may I remind you that certain statements made in the course of this conference call which express the Company's intentions and expectations are forward-looking statements within the meaning of the US Federal Securities law. Actual future results and trends could differ materially from those which are in such statements, due to various factors. Details of these can be obtained from time to time in the Company's SEC filings, including the Company's annual report on Form 20-S. Copies of these filings may be obtained either from our website, or from the SEC.

May I also draw your attention to the more detailed disclosure on forward-looking statements that appears in today's announcement.

Today's call is scheduled to run for one hour. And with that, I'll hand over to Jean.

**Jean Cahuzac** - Subsea 7 S.A. - Chief Executive Officer

Thank you, Karen, and good afternoon to all. I would like to reflect briefly on the quarter, before Simon runs through our financials in more detail. I will make some observations on the market before we take questions.

This was a good quarter in which we have delivered a strong set of financial results. A few comments on the key drivers of these results.

In the North Sea, as expected, results have improved, although we continue to see the effect of the lower margin on work awarded in 2010, some of which has been executed during the quarter.

We've seen vessel utilisation improving since the first quarter, in part due to the usual seasonality, but also because clients have been keen to progress with both their SURF developments and Life-of-Field activities. Our operational performance has been good, although affected by difficult weather conditions.

In West Africa, we have seen a strong performance. This is a result of different factors which all together contributed to our financial results. In Nigeria during Q1, we had seen delays in mobilisation on some conventional projects due to elected related disturbances. Work on this project has resumed during the quarter as planned.

A number of large projects have reached the offshore installation phase, including the successful completion of operations on Block 17/18, Offshore Angola. And our project teams have continued to perform very well.

Project activity in Asia remained as expected very low in the quarter, although I continue to be very pleased with the performance of our joint venture, SapuraAcergy. I'm also pleased with our performance in Brazil. The P-55 project is back on track, the coating issues have been addressed, the project was re-mobilised, and work at our spoolbase recommenced during the quarter. We expect offshore operations to commence later this year.

Our other joint ventures, Seaway Heavy Lifting and NKT Flexibles had also good results during the quarter, and our vessels have technically delivered as per plan. So overall, a good operational performance.

We are also progressing very well with completing the merger. As you know, from day one, we have decided to keep things simple, adopt processes from either legacy company, and to avoid the temptation to create a third way of working. We are focused on the right priorities, while supporting ongoing integration activities. Our approach delivers results, and I am comfortable that we will achieve the targeted cost savings and all the synergies that we have announced.

While we are executing our projects, we are also on track with our medium and long-term key objectives. First, safety and operational excellence.

Project execution and operational performance across our enlarged fleet have been good during the quarter. We have seen no disruption resulting from the merger. We've also made very good progress on business acquisition. Subsea 7 has seen stronger momentum with a number of notable contract awards, including Guar-Lula in Brazil, a broad range of small and large projects in the North Sea, and post-quarter end, the award of two contracts in Australia.

The strong order intake has resulted in backlog at \$7.9 billion, a position equivalent to the one we reached during the previous cycle peak. This figure does not include contracts exceeding \$500 million awarded post-quarter end on the Gorgon development in Australia.

While bidding backlog is important, what is as important is to maintain a disciplined approach to building the right backlog from both a risk and price perspective, pricing perspective. This continues to be one of our focus, one of our main priorities.

While not including Subsea 7 backlog figures, we were very pleased with the award of a significant \$1.8 billion four-year frame agreement from Petrobras to our joint venture NKT Flexible. A local Brazilian plant will be built for this contract. It marks a significant development for the joint venture, and further enhances its long-term presence in Brazil.

We'll also continue to work on our programme of fleet enhancement. Post-combination, we operated a high specification fleet, the largest in the industry. Our plan is to continue to enhance this fleet with a disciplined approach. As you can see on slide five, we have made good progress this quarter and since the beginning of the year. Two high specification vessels have been delivered; the Oleg Strashnov, a second heavy lifting vessel for our SHL joint venture; and a Seven Havila, a North Sea state of the art diving support vessel. The delivery of the Seven Borealis, our deepwater new-build vessel, is still expected in the first half of 2012. The project is on schedule and as per budget.

While adding high specification vessel assets to our fleet, we have also divested from one older small vessel, the Hawk. As you know, we like to own the key enabling vessels, but we are happy to charter the right vessels on the right terms when this is more appropriate. So during the first half, we have also entered into an arrangement to charter two of the country's vessels to support the recently awarded three-year Life-of-Field contract for BP in the US Gulf of Mexico. We have also signed an eight-year contract for the provision of a new vessel to support the five-year Life-of-Field prime agreement with Statoil. As this vessel is expected to be delivered in late 2012, we will initially use the Havila Subsea as a vessel on this prime agreement. And following completion of her charter arrangement, the Toisa Polaris was returned to her owner.

In conclusion, a positive quarter where we delivered strong financial results together with strong order flow and increased backlog. The integration is on track, and we are making good progress on medium and long-term objectives.

And with that, I will hand over to Simon to run through the financials in a little more detail.

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**Simon Crowe** - *Subsea 7 S.A. - Chief Financial Officer*

Thank you, Jean. Good afternoon to you all. We have today published the results for the second quarter 2011 for Subsea 7 S.A. As a result of the combination which was completed on 7th January 2011, these results include the seven-month period from 1st December 2010 to 30th June 2011 for Subsea 7 S.A., the former Acergy business, and the results of Subsea 7 Inc., following the date of the combination.

I will comment on the P&L for Q2 '11, bridge between this quarter and the same quarter last year, noting that it is difficult to compare like with like; then talk a little about the results in the territories; and make some observations about the cash flow and balance sheet. Finally, I will give you some commentary on how you might think about the Company's financials for the rest of the year.

The quarter saw the continuation of the integration work bringing the two companies together. We have now made substantial progress, and are on track with no surprises. The Q2 closing process was completed without any major issues, and work on the purchase price accounting, or PPA, is progressing well and is nearly complete.

Turning now to slide number six and the income statement highlights. Overall, I'm very pleased with the quarter. Revenue from continuing operations was \$1.3 billion, with net operating income at \$210 million. EBITDA of \$307 million, with an EBITDA margin of 23% is the result of a very solid quarterly performance.

We enjoyed higher levels of project and offshore activity during the quarter compared to last year in all territories apart from Asia Pac. We also achieved a vessel utilisation of 80% for major vessels during the quarter, which compares favourably to this time last year.

Turning now to slide number seven and the operational performance. North Sea, Mediterranean and Canada revenue for the second quarter was \$523 million. Overall activity levels were higher as a result of the combination with Subsea 7 Inc., and good operational progress on a number of projects, including Marine Operations, Centrica Ensign, Skarv & Idun, BP Andrew, and the Siri Caisson project. Life-of-Field operations under the Shell, DSVi, Statoil, ConocoPhillips, Total and BP Frame Agreements performed well during the quarter. Net operating income was \$45 million, reflecting the increase in activity and higher vessel utilisation.

Low margins on some projects awarded in 2010 and high tendering expenses from increased volume of bids continued to impact the income statement.

Africa and Gulf of Mexico revenues for the second quarter were \$614 million, reflecting additional activity from the combination with Subsea 7 Inc., and good progress on a number of projects, including PazFlor, Oso Re, EGP3B, Block 31, CLOV and Angola LNG, and Block 17/18, which completed offshore operations during the quarter.

Sonamet also made good contribution. Net operating income was \$151 million, reflecting good performance across the project portfolio.

Asia Pacific and Middle East revenue for the second quarter was \$41 million, reflecting significantly lower offshore activity compared to this time last year, despite a good progress on Woodside and the Kitan project. Net operating income was \$11 million due to the low level of offshore activity, with relatively low utilisation of Rockwater 2, which was partially offset by a good contribution from the SapuraAcergy joint venture. Net operating income in Q2 '10 benefited from high levels of offshore activity and some project completions.

Revenue for Brazil in the second quarter was \$155 million, reflecting a good performance from the seven vessels on long-term charter to Petrobras. Work on the P-55 project recommenced at the Ubu spoolbase during the quarter. Net operating income was \$17 million, which included the completion of operations on the Roncador Manifold project, and operational close-out of the P-56 project.

Revenue for the corporate segment for the second quarter was \$3 million. Net operating loss was \$14 million, reflecting admin expenses, which included integration costs offset by a good contribution from Seaway Heavy Lifting and NKT Flexible. The additional depreciation and amortisation arising following the fair valuation of the assets and liabilities acquired in the combination with Subsea 7 Inc. is also shown in this segment.

Turning now to the income statement overview and slide number eight. Admin expenses were \$97 million for the quarter, with \$15 million of integration costs included in this total. SapuraAcergy and NKT performed in line with expectations, and as expected, SHL's result was positively impacted by the timing of the Sheringham Shoal Windfarm Project.

Investment income was approximately \$4 million, and reflected interest received on our cash balances during the quarter. Other gains and losses show net losses of approximately \$14 million, which were primarily driven by fluctuations in the FX markets.

Finance costs were approximately \$10 million, which was driven by the interests on the convertible bond, and interest and expenses in our loan and guarantee facilities.

The tax cost for the quarter was \$64 million, which equated to an effective tax rate of approximately 34%. This is in line with expectations, and is mainly a function of the geographic profit mix.

Diluted EPS was \$0.32 for the quarter based on a fully diluted share count of approximately 386 million shares.

Turning now to the cash flow and the balance sheet, slide number nine. We generated \$95 million of cash from our operating activities during the first half of the year. Cash generated from operations was as expected adversely impacted by an increase in net working capital balances due to the increase in activity, but these movements will reverse out favourably over the coming months.

Net cash flows from investing activities were approximately \$32 million, which reflected the ongoing CapEx costs during the period relating to the Borealis and Antares and various dry docks. This also included cash acquired as a result of the combination, and included the purchase of the Seven Havila, which is a corresponding financing inflow during the first half shown in cash flows from financing.

We announced on 31st May that holders representing \$62.1 million par value of the outstanding \$300 million 2.8% June 2011 filed their conversion notices for their notes to be converted into common shares in the Company. As a result, approximately 2.5 million shares were delivered to note holders. The balance of the outstanding notes was repaid in cash. We subsequently announced the share buyback programme, and bought back approximately 2.5 million shares. The partial repayment of our convertible bond and share buyback programme are also shown in financing flows.

Turning now to the balance sheet, we have set out the provisional fair value calculations in note 10 of today's announcements. These have small adjustments from those published at the end of quarter one. We have made good progress with the PPA work, and we will finalise these calculations by the end of the year.

We have a provisional calculation of \$2.4 billion of goodwill that will sit on the balance sheet and be tested for impairment at each year end. Our closing cash balance was \$598 million.

Finally, turning to slide number ten, and to some commentary on how you might continue to think about the financial statement going forward, and your model. We are very much on plan, and there are no major changes from when I last spoke to you.

Our current run rate for admin expenses is approximately on average \$75 million per quarter, excluding integration costs for the remainder of 2011 trending lower towards the end of the year. Our integration plans are being realised across the Group, and we expect a run rate of approximately \$25 million across the quarter. We're currently trending below this, but expect to be at the \$100 million mark approximately in total for our integration efforts. We are still on track.

We continue to focus on cost optimisation, and we can already see some of the early benefits of this, together with our synergy programme starting to bear fruit.

Our annual depreciation and amortisation D&A charge will be approximately \$350 million for 2011. Taking the combined legacy companies' D&A for 2010 of \$260 million, we had approximately \$50 million of D&A relating to the fair value uplift of the assets. We then had approximately \$10 million relating to the December 2010. And finally, we had approximately \$25 million of D&A coming from the impact of new vessels for the full year, capitalisation of dry docking, and FX.

Our expected cash CapEx for the remainder of 2011 is approximately \$200 million to \$250 million made up of further spend on the Borealis, various dry docking, and other smaller investments.

Our finance income will be determined by the cash balances through the year. Finance costs will be driven by the convertible bond and the utilisation of our \$1 billion facility. The quarterly run rate will probably be slightly less than the reported figure for Q1 '11, as it includes December '10 and the 11th June bond has been redeemed and converted. For modelling purposes, I would use 35% effective tax rate for the year, and our issued share count stands at 352 million shares, with approximately 12 million held as treasury shares post-buyback.

In summary, the EBITDA figure of \$307 million is in line with our expectations for the quarter. With the financial markets exhibiting high levels of volatility, I would like to remind you that Subsea 7 has a very robust balance sheet, with approximately \$600 million of cash as at the quarter end. We're conservatively geared, and we're well positioned to continue to win work and realise synergies. Finally, we remain committed to delivering long-term shareholder value.

With that, I will now pass back to Jean.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Well, thank you, Simon. So turning to the markets and what it means for Subsea 7. Looking forward, we see opportunities in nearly all our markets, although activity is picking up at different pace in different geographical areas.

Starting with the conventional markets in West Africa, we expect more contracts to come to market award later this year and early 2012. With our strong local presence, fabrication yards, and differentiated assets, such as the Antares and the Polaris, we are well positioned to continue to play a leading role in this market.

Going to the SURF market. High levels of tendering activity around the world continues to underpin strong order book momentum. In the North Sea, we continue to see positive signs. Tendering remains a high level, and these tenders are now translating into awards resulting in high level of activity. This will result not only in an improved vessel utilisation, but also in improved margin for recently awarded contract in the North Sea.

All this is good news. However, it will take a couple of quarters before you see the full impact of pricing environment on our financials in this region.

In West Africa, although timing remains sometimes difficult to predict, we expect a number of major SURF contracts to come to market award later this year and in the first part of 2012, both in Nigeria and Angola. Offshore operations for these projects however will take place post-2012.

In the Gulf of Mexico, in spite of some progress regarding permits for deepwater drilling, this has yet to manifest into a significant increase in subsea installation activity. As such visibility regarding the timing of projects remains limited, we do not believe that we see a return to the subsea construction levels pre-Macondo in 2012.

The Asia Pacific markets remain competitive, but we have been pleased to see the first of the large SURF contracts finally come to award. We expect further gas driven project in Australia to come to market award later this year and early 2012, resulting in more offshore activity in 2013 and beyond.

And finally, in Brazil, we see more opportunities ahead for the industry in both the traditional deepwater through additional PLSVs, as well as pre-salt development. For pre-salt development, technology is key, and strong engineering and project management resources are needed. Subsea 7 is clearly one of the few companies which have the right capabilities to deliver such projects in a cost-effective and reliable manner.

So what about 2011? When I think about our expectations for 2011, they remain unchanged. With backlog of \$2.6 billion in hand for execution in the remainder of the year, we are well placed. Integration is on track, we continue to efficiently deliver our projects, and I remain comfortable with the outlook for the year.

In summary, while the financial market turmoil over the last few days might lead to some short-term uncertainty, I look forward with confidence to the future. I see opportunities in nearly all markets, although activity is picking up at different pace in different geographical areas. Our market fundamentals are very good, with a strong balance sheet, healthy backlog, and a proven ability to deliver projects in a reliable and cost-effective way, Subsea 7 is well positioned to deliver profitable growth.

And with that, I would like to turn to your questions.

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# Questions and Answers

## Operator

Thank you, sir. We'll now begin the question and answer session. If you wish to ask a question, please press \*1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key.

Your first question comes from Ian Macpherson from Simmons. Please ask your question.

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## **Ian Macpherson** - *Simmons & Co. - Analyst*

Hi, thanks. So, Jean, with regard your outlook, obviously, you've won some significant awards recently, and as you pointed out, your backlog is now that or above your prior peak; and I wonder if you could just comment on how you see your capacity utilisation from a total company perspective; engineering capacity or vessel capacity, what would characterise it; and what your appetite is to maintain, or accelerate, or decelerate your bidding as the next few quarters unfold.

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## **Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Yes, thank you. The first comment, I would just like to refer what I said before regarding backlog. I think it is very important to have the right backlog, from a risk and pricing perspective. And I'm insisting on the risk perspective. I think it is very important to our industry that we keep control of our processes and what we are doing.

The biggest challenge that the industry is facing in my opinion is with people in engineering and project management, the shortage of people in engineering and project management, and it's a challenge that Subsea 7 is facing. I think we are well positioned and better positioned than most of our competitors, but it remains a challenge.

So I think what is important is for us is to use the size of the company that we have. We can operate from multi-locations, so when we bid or when we execute one of these large projects, in fact, we have a technical package which are organised around the world, and we can optimise the resources and deliver more with the same number of people. But we have to focus on that.

Regarding the fleet itself, one plus one is more than two. In other terms, post-combination, we can do more than we would have been able to do as two separate companies, because we have more flexibility in terms of specification of the vessel; we can have a multi-vessel approach for some of the projects. We are in discussion with customers to change some of the vessels which are on some projects which are more fit for purpose projects;

that results in less time perhaps to spend on the project; it is good for the client; it is good for our bottom line. We are spending less time in transit, which means that we are spending more time on projects.

So I would say we have a cautious and disciplined approach. We can do more, but with the right contracts.

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**Ian Macpherson** - *Simmons & Co. - Analyst*

Okay, thanks. And then just a follow-up question on your margin. You commented, or Simon commented that results are tracking in line with your expectations and the synergy captures are tracking in line as well. And I wonder if we could translate that into any view of EBITDA or operating income margins in the second half of the year relative to what you've achieved in the first half.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Well, the challenge of this industry is actually to have to report on a quarterly basis. What we are seeing and what we said about the North Sea is that we see margins for new projects which will be executed in the North Sea going up because the market is improving, but we still have in 2011 projects which have been signed in 2010. We grow our margin and that will maintain some headwinds on what can be done during this year.

Another thing not to underestimate is the timing of the project. There have been very little projects, as you know, awarded in Africa in 2010 and even 2009, and therefore the projects which have been awarded recently, or will be awarded in near future, the SURF projects, will be in operation post-2012. And that has also an impact on the timing of the results.

I would like to refer, for instance, PazFlor. PazFlor is one of the great successes of Subsea 7 from a technical and operational perspective. It's a contract which was signed late 2007/beginning of 2008 which is not yet completed and will be completed sometime in Q3 or early Q4, and that's what we will have to do. So when you look at margin, the trend is going in the right direction. The timing needs to be seen on a multi-quarter basis.

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**Ian Macpherson** - *Simmons & Co. - Analyst*

Okay. Thank you.

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**Operator**

Your next question comes from Fiona McLean from Merrill Lynch. Please ask your question.

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**Fiona McLean** - *Merrill Lynch - Analyst*

I have a couple of questions. Just staying on the backlog, again, you are at a record level, or near a record level at the moment. How constant are you in your ability to execute that backlog given the comments you're saying about difficult it is to get hold of additional engineers, and especially project management people?

And the outlook for the second half looks fine. Can you maybe give us an indication of what you're seeing happening in 2012, particularly from the offshore installation phase of your projects? Because it looks like you don't have as much offshore work next year as you're seeing this year.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Yes, so thank you for your question. On the backlog first, in line with what I was saying, we can win and execute successfully more projects, and therefore grow the backlog. My prime objective is not to build a backlog for the sake of building backlog. At the right terms and conditions we'll be happy to do it and I think it's possible. The future will tell.

So, yes, we have additional resources to actually handle more of these large jobs, and I'm comfortable with that.

One other thing to look at also when you look at the backlogs on these large projects is that a significant part of the total value of this project is procurement. So when you take a project and you have 30% or 40% of procurement, it has two impacts. Firstly, that you don't need on this 30%/40% scope the same profile of people that you need for the engineering and the execution, so you are using I would say in proportion less engineering than you do otherwise. It has another impact by the way which is that in terms of margin, while you have a margin improving and going up on what we execute, the margins on procurement are limited and more limited definitely than what we can get on the other part of the project, the execution side.

So the resources required to execute the backlog is of course linked to the total value of backlog; but not only of that, it depends how it's split between procurement and other parts. And that's why I think we have more opportunity to continue to grow backlog.

Regarding the offshore phase, you're quite right in your comment. While we expect a lot of projects in the North Sea to be in offshore phase in 2012 because not a lot has been done 2009/2010 by the operators, so they will want to speed up things, and we are already seeing that; and also because these projects are executed within a very short period after award, let's say six months to nine months, it's different when you look at Africa or you look at Australia on these large projects. And, yes, indeed, we will have less projects in operation in 2012 in Africa than

we had in 2011, and that will have some impact in terms of the timing of when we release the contingency, which we traditionally release close to the back end of the project.

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**Fiona McLean** - *Merrill Lynch - Analyst*

Yes. And can I just get a little bit more clarity and potentially visibility on your joint ventures? Because that number every quarter seems to just jump around all over the place. So what are the projects that these joint ventures are working on over the next six months?

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

I'm going to let Simon answer to that, but I think the joint ventures are facing the same challenges we do, which is quarterly reporting is difficult. But, Simon?

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**Simon Crowe** - *Subsea 7 S.A. - Chief Financial Officer*

That's exactly right. We did about \$50 million in terms of JVs for the half year. Last year in JVs we did about \$75 million in total for the full year. We think we could expect a bit more than that for the full year in '11.

SHL's been very busy on some wind farms; NKT is a function of the global market. So as Jean as introduced, this is very difficult to get fully visibility and difficult to report on a quarterly basis, but the summary is we expect a little bit more than we did last year. That's probably going to be the case.

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**Fiona McLean** - *Merrill Lynch - Analyst*

Okay, great. And just last question, I promise. When are you going to start giving us some firm guidance for 2012?

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

It's too early to indication of 2012. Traditionally, we've given some information on '12, our feeling about the next year later in the year, beginning of Q4.

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**Fiona McLean** - *Merrill Lynch - Analyst*

Okay. Thank you.

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### **Operator**

Thank you. Your next question comes from Pal Dahl from First Securities. Please ask your question.

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### **Pal Dahl - First Securities - Analyst**

Yes. You seem very confident, or you give a very bullish outlook on the market fundamentals. Could you shed some more light on the demand that you are seeing and the tenders outstanding? I think one year ago, you were talking a lot about a trend of larger projects, more difficult projects, deeper waters. Is the tender volume developing the way you planned, or as expected?

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### **Jean Cahuzac - Subsea 7 S.A. - Chief Executive Officer**

Yes, it does develop as expected. And again, the size of the projects and the difficulty of the projects depend upon the geographical area. North Sea remains the same. It's smaller projects where... and medium sized projects; from the \$10 million to the \$100 million projects, or whatever; and where really the efficiency is through the capability to manage a large fleet in the most effective way; to manage engineering and project resources; to work with your clients on the day to day; to be able to react overnight on a potential problem. That's our strength. That's the strength of Subsea 7.

When you talk about outside of the North Sea, in fact, we see the projects becoming larger and larger. If you talk about impacts, not for reasons that you understand I'm going to tell you exactly what we bid to Inpex last weekend, but its north of \$2 billion. If you talk about Egina, which is a project of Total which probably will come to market award in 2012, maybe in the second part, it's more than \$2 billion.

If you talk about the Guará-Lula, the sub-salt projects which are going to come post Guará-Lula award, Petrobras has given some indication to the industry that they are having nine projects which are probably twice the size of the projects that we are presently executing, which is again north of... which would be north of \$2 billion in aggregate. And then you have numerous number of projects which are in the \$300 million to \$700 million. I'm not going to go through all of them, but Erha North in Nigeria, Lianzi in Angola, Akpo in Nigeria, the PLSV project in Brazil new-build vessels, which... I mean, one vessel would be in the \$500 million project and Petrobras may commit to two or more. You have the Vega project in Argentina, which is in the \$400 million range.

And then if you look around the world... I could go on and go on with the list projects that we see. And that's really the type of project that we are targeting in addition to Life-of-Field in the North Sea.

There are projects where there are not so many companies which in today's world are considered to be reliable and effective to deliver what the client expects; in particular, post-Macondo where ability is absolutely key. And that's the message we are getting from our clients.

We are not the only one. There are several companies, but we are one of them.

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**Pal Dahl** - *First Securities - Analyst*

Are you seeing any changes in the competitive landscape on these larger complex projects?

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

No. You have the traditional competitors, Technip and Saipem; you have on a one-project basis, because its specific requirement. There are some couple of other companies; but, no, we haven't really seen a lot of changes. What we've seen is some newcomers addressing the smaller type project, or the less demanding project, but on these large project it's limited.

You can have on a particular project, you can have a newcomer which wants to be particularly aggressive to enter a market, and as far as I'm concerned that's fine. We are not going to necessarily follow that. We'll bid what makes sense for us and see what happens.

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**Pal Dahl** - *First Securities - Analyst*

Excellent. Thank you very much.

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**Frederik Lunde** - *Carnegie - Analyst*

Thanks. Just a couple of questions on the timing of these projects you're working on today. Could you just give us some indication on Block 18 PazFlor and Oso Re, where you will see... or there's potential for more profits being recognized in Q3 and Q4? Or did they have an abnormal high effect this quarter?

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Yes, we're not commenting on specific project-by-project basis. I think the comment that we said is that we were seeing more project execution in Africa in the first nine months of the year, and we are seeing activity picking up in the North Sea, although there is headwinds on margins because of 2010 contracts which have been previously signed. And we don't expect a significant increase of activity, or we don't expect an increase of activity in operations in Asia. And Brazil remains strong. But I cannot really comment beyond that.

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**Frederik Lunde** - *Carnegie - Analyst*

That's great. And also on the joint ventures, you have the Gumusut project obviously being very large and now about 50% completed; and also in your Frame agreement with Petrobras on Flexibles. What's the accounting methodology on those? Is Gumusut as lumpy as the EPC contracts in Africa, and when will Flexibles really kick in?

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**Simon Crowe** - *Subsea 7 S.A. - Chief Financial Officer*

It is... Gumusut is lumpy as the big SURF project. It's a classic project, and NKT is going to take some time to really kick in in terms of that Frame agreement as investments need to be made over the coming year. So, yes, it's very difficult to get the exact timing right quarter on quarter, Freddy.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Although on NKT, the first two years of production will be done from Denmark until the Brazilian plant will be completed, so there will be some production from Denmark for this Frame agreement.

Regarding Gumusut, the project is going on very well. There is still some uncertainty about the timing of operation; will it be in late '12, will it be in '13? Still a question mark that Shell will have to decide.

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**Frederik Lunde** - *Carnegie - Analyst*

That's great. And a final question, if I may, on Sonamet. Is it correct that you are seeing less contribution now than you had, say, in 2010? And what is the expected timing of the deconsolidation?

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Well, I think on Sonamet on the business side, I think Sonamet are exactly in the same position as we are. There has been a very healthy workload in '09 and '10 for contracts which had been signed in '07 and '08; less contracts

signed in '10, and therefore less work in '11. And we expect activity to be picking up post-'11 in a big way, second part of '12 or later, but it's picking up.

Regarding the deconsolidation, no change of plan. Unfortunately, there have been some administration and law change in Angola which had led one of the shareholders, Sonangol, to have to reinitiate some of the processes, which is taking time, but there is no change of plan. It's something which had been agreed a number of years ago and we're quite happy to work together with our partners to implement the plan and continue to develop Sonamet. We are still managing the yard and are very pleased with the partnership.

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**Frederik Lunde** - *Carnegie - Analyst*

Thanks.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Thank you.

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**Operator**

Thank you. Your next question comes from Mick Pickup from Barclays Capital. Please ask your question.

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**Mick Pickup** - *Barclays Capital - Analyst*

Good afternoon. A couple of things, if I may. Firstly, I don't think you can answer the question, but just following on from what Fiona asked about West Africa. If we run through, and I think what you're saying is you have a couple of big things finishing this year and then you've got a low patch in West Africa next year. Just wondering two things on that. Firstly, without having to give an answer, when was the last time you thought you had the low patch in West Africa? Because, obviously, there is a question is how far that Africa margin comes down. Secondly on that, conventional work could have a positive impact pretty quickly on that, so what do you see is the outlook for that?

And then a second question a bit unrelated; if I look at your presentation, it looks like because of contracts you've given, two vessel owners have committed to new North Sea new-builds during the quarter. Given that some of your detractors over recent months have said that one of the issues would be an oversupply of vessels, and that especially some areas like the North Sea probably have too many vessels, why do you think now is the time to commit leases of those vessels? Do you go out and do new-builds?



**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

So West Africa having a lower level of activities several years ago, it's pre-2007, the conventional... I mean also the beauty of the conventional is that operations start only couple of months, six months post-contract award, and therefore we see improvement on the bottom line. I think what's good on the conventional is that we expect the contracts to be awarded to the industry late this year, or later this year/beginning of 2012 to us or somebody else. I don't know who will be winning, but if we were to be successful, that would have an impact in the second part of '12.

We also see more conventional work in Angola, which is also encouraging for the longer term, but conventional doesn't use a lot of vessels, or when it uses vessels, they are not the same one. And, therefore, getting work in conventional is good for the revenue and the profitability of the projects, of the conventional projects; it doesn't solve the problem of vessel utilisation, and that's something to keep in mind.

Regarding the new-builds and the oversupply, I'm not sure I share your views. There may be... there have been a lot of vessels added on the low end of the market. Regarding the high end of the market, I personally believe that the industry in the coming years may be even short of resources rather than have too many high-end vessels.

When we are committing to this long-term contract of IMR, Life-of-Field, it's associated with specific jobs. So if you take some of the long-term contracts we signed for an IMR vessel, almost all the duration of the charter is covered by the contract with the client. We would be cautious not to do it on pure speculation with relatively low-end vessels. On high-end vessels, it's a different view, because of how strong this market is going to be in the coming years. But what you've seen in terms of long-term charter on IMR is associated with contracts.

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**Mick Pickup** - *Barclays Capital - Analyst*

Yes. And so these new vessels you classify those as lower end or higher end?

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Well, they are high end of the low end. They are good vessels. I would call them on the low end, and then I would share your views that there has been a lot of additional supply, and that's why we're cautious in what we are doing.

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**Mick Pickup** - *Barclays Capital - Analyst*

And there wasn't any available for you to charter which didn't involve new low end coming in?

**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

No, because the specification of Statoil as such that they have some Life-of-Field specific technical requirements which are pretty high end. The vessel itself is nothing special. The starter kit that we put on these ships is pretty sophisticated. And then in the Gulf of Mexico, the two vessels that we chartered in the Gulf of Mexico it's because of the Jones Act. You need to have a US-owned vessel operated by US personnel for the key position, and I think we have a very good partner there where we're not really willing to invest on vessels, but he needs to comply with the Joint Pact. So it's kind of a win-win situation because he's not able to deliver the Life-of-Field project, so we provide the expertise, he provides the assets. It's really win-win.

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**Mick Pickup** - *Barclays Capital - Analyst*

Okay. Thank you very much, gents. Good results.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Thank you.

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**Operator**

Thank you. Your next question comes from Ole Martin Westgaard from ABG. Please ask your question.

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**Ole Martin Westgaard** - *ABG - Analyst*

Good evening, gentlemen. I have a question on your balance sheet. You obviously have a very strong balance sheet in combination with a record backlog. Have you done any consideration with regards to what's the optimum financial structure?

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**Simon Crowe** - *Subsea 7 S.A. - Chief Financial Officer*

Yes, we are reviewing that with the Board. In fact, we have a session in the autumn where we're going to look at it. We've all got long memories and we like to have a conservative balance sheet. We do like to keep some cash there in terms of opportunities in a downturn. We think about getting an investment-grade type rating, but then we

think we have to get the rating, and then we think we have to hold the rating. We think about all sorts of things, but we try and be conservative. We are having a session in the Autumn to look at it and to size up where we are.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

But I would say, just to add a few points on that, I think we have a good cash flow situation. We have a strong balance sheet. The first thing is that we look at opportunities in terms of investments. Again, it's a question of does it make sense from a financial return. For instance, you have this pending tender in Brazil on the PLSV. We are in one of the companies shortlisted from my understanding is. So it doesn't mean we are going win it, but we are shortlisted. That will be an investment that we will do against the contract.

So... and if there is no appropriate investment, then obviously the Board will look at the best way of returning cash to the shareholder, and that's one of the discussions which is also ongoing. So, it's presently being reviewed for now some time, but it's something which is on the top list of the Board obviously.

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**Ole Martin Westgaard** - *ABG - Analyst*

But if you exclude the Brazilian vessel contract, are there other significant investment opportunities that you're looking at besides that? Or I think post the merger, you commented that you had all the capabilities that you needed for next couple of years.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

And I confirm that today we have the largest fleet in the industry. We have a high specification fleet, and we have the vessels that we need. It's just that this market may be picking up a bit faster than we thought in the years to come; again, the years to come. I am not saying in the next couple of months. And, therefore, we have to look for some specific vessels if we would need additional capacities through charter or something else.

No conclusion; it's work in progress. To give you an idea, the recently awarded project that we got, which was the Gorgon project, requires 400 days of use of a vessel, high specification vessel like the Skandi Acergy, and there are more of these projects to come.

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**Ole Martin Westgaard** - *ABG - Analyst*

Okay. And the final question on NKT. The recent large Petrobras award to NKT, has that changed your view on how NKT fits within Subsea 7, or can you add some colour on that?

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

No, I don't think the project award in Brazil changed our view on how it fits with Subsea 7. We have always been very confident with NKT Flexible as a joint venture. NKT Flexibles is a very good company from a technical perspective and execution perspective and had great upside. So we are obviously are reviewing all the strategy, like we're reviewing the strategy on a regular basis with the Board, but this particular project hasn't changed our views. We will review the strategy on a regular basis, as I said, and decide what to do. But we are comfortable with NKT Flexibles as it's a good company.

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**Ole Martin Westgaard** - *ABG - Analyst*

Okay. Thank you so much, and congratulations with an impressive set of results.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Thank you.

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**Operator**

Thank you. Your next question comes from Amy Wong, UBS. Please ask your question.

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**Amy Wong** - *UBS - Analyst*

Hi. I have a question regarding your comment about the challenging environment for hiring Subsea engineers. I understand in the North Sea, Brazil and Australia, we're seeing quite a bit of probably wage inflation in those areas, and probably also seeing some inflation in the equipment market as well. So could you comment on how this could potentially impact your profitability of projects in the longer term, probably next one or two years out?

Thanks.

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**Jean Cahuzac** - *Subsea 7 S.A. - Chief Executive Officer*

Well, to talk about personnel, I think when you talk about personnel, we are taking a long-term view, and that has on both sides of the legacy company, I would say, the approach was very similar. So the reason I'm starting to mention that is that when you talk about engineering, you're talking about project management, it's pretty sophisticated work that these guys have to do. We have not stopped training our people. We have not stopped recruiting even when the activity was going down talent for the Subsea industry. So we are well placed on that.

When we talk about compensation, we obviously have to be in line with the market, but our people who work for the Company because the compensation is right in line with the market, but work for the Company because they see a lot of opportunities in what we're doing and a lot of very exciting work, and engineers are a bit like that; they like the technical stuff.

So cost of personnel will be go up, but I think in line with the market, and that's something that we actually pass to our customers who are bidding for all these new projects with different teams. But that goes to the customer.

There is a high spot which is Brazil, where there is also a shortage resources and where there is inflation and compensation, and I think, again, we have a long experience in Brazil; we know how to handle it. So when we are bidding project like this PLSV, for instance, it's something we take into account and that's part of our pricing. So, I also feel comfortable on that.

The second part of your question which was on supply chain, it's a risk that the industry, the Subsea industry, has always when the market is picking up, which is the capacity of the supply chain... to control the cost from the supply chain, but also the issue of quality and the reliability of the suppliers. And I think the question of reliability and quality of the suppliers for me is even more important than the price itself, because the price is something we cannot control, but it's something we can pass to the operator because, again, it's part of the bidding and we have very strong team who are able to do that.

The question is on the quality and the delivery. When a supplier is late in delivering or there is a problem of equipment, it can impact our projects, and that's why we work with a preferred list of suppliers; that's why we put additional resources together with the supplier to mitigate the risk. But this risk does exist.

And I would say it's a bit of the same comment that I would make on the people side. It's a challenge for the industry, it's a challenge for Subsea 7. I think, we are better positioned than most of our competitors because of our size and because of our resources to handle it, but the challenge still exists.

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**Amy Wong** - UBS - Analyst

Thanks very much, Jean.

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**Simon Crowe** - Subsea 7 S.A. - Chief Financial Officer

Okay. I think we have time for just one more question.

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**Operator**

Thank you. Your final question comes from Haakon Amundsen from Handelsbanken. Please ask your question.

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**Haakon Amundsen** - Handelsbanken - Analyst

Yes, thank you. Two questions, if I may. First, you have commented for a couple of quarters on improving pricing environment in the North Sea. Can you talk a little bit about the dynamics in other regions?

And secondly, the margin in Brazil which came back this quarter, how would you characterise this quarter in terms of the activity level relative to what we can expect for the next couple of quarters?

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**Jean Cahuzac** - Subsea 7 S.A. - Chief Executive Officer

Well, different ways to answer your question. The first one is when you look at margin on a quarterly basis, it can be... it's not reflecting the margin of the project only; it reflects obviously the margin of the project, but it also reflects the timing of the execution of the project and when we are able to release contingency because we come to an end. So you are going to have fluctuation of margins quarter on quarter in a given geographical area, which is driven, I would say, as much by project skills than anything else.

When we talk about improvement of margin, I mentioned before we see an improvement of the market but at different pace in different parts of the world, in different geographical parts of the world; and, therefore, there is a different pace in the improvement of margin, depending upon where you are. Clearly, the trend is faster in the North Sea for projects which are signed now, which will be executed post-'11.

And when you take Australia, we are not yet there. There is more competition, taking into account the fact that the demand is just starting to pick up. And then it's a question of taking a kind of a global worldwide approach and

saying that when we sign a contract in Asia, we need to be pleased with the margin, taking the global picture. But it's more difficult to push rates in this part of the world in the very short term than it is in some others.

Brazil, when you look at the PLSV market and the new-builds, I take it from a different prospective. We look at our numbers, and then if we are pleased with the financial returns, taking into account the investments, then we'll go ahead with the project. If we don't meet our financial criteria, then I would say we're happy to leave it to the competition. So it's a mixture of lot of things.

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**Haakon Amundsen** - *Handelsbanken* - Analyst

Okay. Thank you.

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**Jean Cahuzac** - *Subsea 7 S.A.* - *Chief Executive Officer*

Okay. With that, I would like to thank everybody for participating to this call, and we're looking forward for the next earning call.

Thanks a lot.

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**Simon Crowe** - *Subsea 7 S.A.* - *Chief Financial Officer*

Thank you. Bye.

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**Operator**

Thank you. That does conclude our conference call for today. Thank you all for participating. You may now disconnect.