Subsea 7 S.A. First Quarter 2011 Results
Wednesday May 11, 2011

Speakers

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

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Subsea 7 S.A. Q1 2011 results conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Wednesday May 11, 2011. I would now like to hand the conference over to your speaker for today, Ms Karen Menzel. Please go ahead.

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's results incorporate the four-month period from December 1, 2010 to March 31, 2011 for Subsea 7 SA and the results of Subsea 7 Inc following the data combination. The comparative, unless otherwise stated, is a three-month to February 28 2010 for Acergy SA. This release can be found on our website, along with the presentation slides we will be using during this call.

Before we start, may I 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 within the meaning of the US Federal Securities laws. 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 20F. 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 appear in today's announcement. Today's call will run for one hour and with that I'll hand over to Jean.

Jean Cahuzac – *Subsea 7 - CEO*

Thank you, Karen, and good afternoon to everybody. I would like to reflect briefly on the quarter and also on our integration progress to date and Simon will then run through our financials. And before we take your questions, I will make some observations on the market.

This quarter is the first quarter since we completed the combination. It's fair to say that our financial results are somewhat below our recent run rates, but I'm not overly concerned when reviewing these numbers.

In the North Sea results have been as expected. I mentioned during our February call that utilisation will be lower in the first quarter. This is what happened and it has impacted negatively our results. However, in March vessel utilisation was starting to pick up. This trend has also been further confirmed post Q1.

We were also seeing signs of improvement in the pricing environment at the time. Here again this trend has been confirmed and it should also have a positive impact in the near future and that's earlier than I initially thought.

In Nigeria, in the context of the presidential elections, localised disruption delayed somewhat the scheduled mobilisation on some conventional projects. Work has resumed post Q1 and we are confident that these projects will progress.

In the Gulf of Mexico there has been some progress regarding the granting of permits for deepwater drilling to recommence. However, we believe that there is still some time to go before we see a return to the subsea construction activity levels that we had seen pre the Macondo incident.

Subsea 7 project activity in Asia has also been very slow, but our joint venture SapuraAcergy continues to perform well. Outside of the joint venture we foresee relatively low activity for Subsea 7 for the remainder of the year. The coating problems that we had experienced last year on the P-55 project have now been addressed. We are getting ready to remobilise our personnel and our spoolbase in Q2 for operations in Q3.

So we see global activity levels rising in the near future, except maybe in Asia, and as a consequence the adjusted EBITDA margin should improve over the remainder of the financial year.

I'm also pleased to say that we are on track to achieve our key objectives. Any merger creates challenges; people uncertainties regarding their own role in the company, additional workload, to name a few of them. Our approach for this merger has been to keep things simple, to adopt processes from either legacy company and to avoid the temptation to create a third way of working.

We have also set out to define clear objectives and accountabilities across the organisation and it's really working. We've been able to keep or whole organisation focused on the right priorities while supporting on-going integration activities, which are going very well.

We have continued to achieve key objectives during the quarter and when I look at these objectives first I refer to safety and operational excellence. Project execution and operational performance across our enlarged fleet has been very good during the quarter. We have seen no disruption resulting from the merger.

Looking at business acquisition, we have integrated quickly the marketing teams from the two legacy companies. These teams have secured a strong order intake resulting in a backlog of $6.7 billion, and this figure does not include contracts exceeding $1.5 billion award in post quarter end, which includes the Guará Lula project. What is also important is that we have maintained discipline in our tendering processes and contracts that we sign, and we make sure that they have the right risk profile for Subsea 7.

Another point to mention is that key objectives and key milestones on technology have been achieved this quarter. We have won the Guará Lula design competition project in Brazil. The selection by Petrobras of our buoy concepts for the first phase of their presalt field development represents a major milestone for Subsea 7. This positions us very well to capture further EPIC business opportunities in Brazil and from a more general perspective it will allow us to develop further our local engineering and project management capabilities.

We made progress also on the fleet enhancements. The *Oleg Strashnov*, the second heavy lifting vessel for SHL, has been successfully delivered during the quarter and has recently started operations. The *Seven Havila* the new build diving support vessel, also joined the fleet and, following completion at sea trials and commissioning of the dive system, is expected to commence work in the North Sea this summer.

Another focus is obviously synergies and cost reduction. You will recall that at the time of announcing the combination we indicated that we expected to deliver a run rate of at least $100 million of pre-tax synergies by the end of 2013. We are monitoring closely our progress and I'm very confident that we'll achieve this objective.

One of the areas where we already see positive impact is on the management of the fleet. We have now a global view of our vessel schedule. We can optimise our projects by assigning the most suitable assets to the job. In some cases we can avoid to mobilise vessels from around the world. It's cost effective for us and it's cost effective for our customers. Our new way of managing our fleet should free some assets and this is important in an improving market as it should allow us to capture more opportunities.

And with that I will hand over to Simon to run through the financials.

Simon Crowe – *Subsea 7 - CFO*

Thank you, Jean. Good afternoon to you all. We have today published the results for the first quarter for Subsea 7 SA.

As a result of the combination, which was completed on January 7, 2011, these results include the four-month period from December 1' 2010 to March 31, 2011 for Subsea 7 SA, the former Acergy SA business, and the results of Subsea 7 Inc following the date of combination.

I'll comment on the P&L for Q1 '11 bridge between this quarter and the same quarter last year, taking into account that it's difficult to compare like-for-like, talk a little about the geographic territories, and make some observations about the cash flow and balance sheet. I will then give some commentary on the new company going forward and how you might think about building your model.

The quarter saw the completion of the combination and since then I've been very pleased with the advances in bringing these two companies together. We have made substantial progress in bringing the teams together, the financial systems have performed very well, and the Q1 closing process was completed without any major issues.

Work on the Purchase Price Accounting, or PPA, is progressing well and we have today published provisional numbers. PPA is the process of valuing Subsea 7 Inc's assets and liabilities that were required as a result of the combination, and comparing this figure to the consideration paid the differences recorded as goodwill in the books. We have aligned the two companies' accounting policies and there are no material differences to report.

Turning now to slide number five and the income statement highlights, revenue from continuing operations for the period ended March 31st '11 was $1.3 billion. This included the month of December for legacy Acergy. Net operating income for the period was $94 million, and I will now explain some of the key factors driving this result.

On slide six you can see the net operating income statement bridge. It should be noted that the two periods, Q1 2011 and Q1 2010, are not strictly comparable, but at a high level we want to try and explain some of the key factors driving the net operating income differential of $85 million.

In the North Sea in Q1 '11 we had lower vessel utilisation, some ships were idle, and we had lower margins from work that was signed up in 2010. In AFGoM our performance was good, although it suffered from delays around the Nigerian election. The main difference between the two quarters was the performance in Asia; in 2010 both legacy companies had excellent first quarters, with good offshore activities, and the successful completion of many projects. We did not repeat this in 2011. In Brazil we suffered from delays around P-55, which are now resolving themselves.

Other key differences between the quarters are the high-level of dry-docking experienced in Q1 '11, the expected increase in depreciation and amortisation coming through from the PPA exercise, the additional month of December, and some capitalisation of dry docking. We also absorbed, as expected, approximately $11 million of integration costs for the quarter and tendering costs were up against this time last year.

Turning now to slide number seven and the operational performance, North Sea revenue for the first quarter was $308 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 Andrew, Bacchus Pipeline, Deep Panuke, Jasmine, Laggan Tormore, and Taurt & Ha'py.

Life-of-Field operations continued under the Shell, DSVi, Statoil, ConocoPhillips, Total and BP frame agreements. Net operating loss was $8 million, primarily due to lower vessel utilisation, low margin on some projects awarded in 2010, and high tendering expenses.

Africa revenue for the first quarter was $725 million, reflecting additional activity from the combination with Subsea 7 Inc, and good progress on a number of projects, including PazFlor, EGP3B, Oso Re, Block 18 Gas Export Line, Block 31, and Angola LNG, as well as a good contribution from Sonamet. Net operating income was $118 million.

The recent elections in Nigeria and localised disruption led to delays to scheduled mobilisation on some conventional projects, resulting in slower than anticipated project progression. There were no major project completions or closeouts during this period.

In Asia Pac revenue for the first quarter was $64 million, reflecting offshore activity on the Kitan and Woodside projects, and the completion of the Maersk Qatar project. Net operating income was $2 million due to the low level of offshore activity, partially offset by good contribution from the SapuraAcergy joint venture. Net operating income in Q1 '10 benefited from the high level of offshore activity and completion of several projects.

Brazil revenue for the first quarter was $191 million, reflecting revenue from the seven vessels on long-term service agreements for Petrobras, which achieved full utilisation during the period, excluding a planned dry dock. The period also saw good progress on the Roncador Manifold and P, excuse me, P56 project which completed operation. Net operating income was $4 million.

The pipe coating issues in respect to P-55 project have been addressed and operations at the Ubu spool base are expected to resume in the second quarter.

Corporate revenue for the first quarter was $4 million. Net operating loss was $22 million, reflecting admin expenses, offset by a positive contribution from the joint venture and NKT Flexibles and Seaway Heavy Lifting. Admin expenses included integration costs. Depreciation and amortisation arising following the fair valuation of the assets and liabilities acquired in the combination with Subsea 7 Inc is shown in this segment.

Following completion of the Mexilhao Trunkline Project in Q4 '10 there have been no further activity in the discontinued operation segment.

Turning to the income statement overview and slide number eight, admin expenses were $111 million for the period, reflecting the bringing together of the two teams, $11 million of integration costs for the period, and the impact of December. SapuraAcergy and NKT Flexibles performed in line with expectations and, as expected, SHL was impacted by lower operational activity in the quarter.

Investment income was $6 million and reflects our $890 million cash balance as at the end of the quarter. Other gains and losses were $17 million which were driven by the weakening US Dollar. Finance costs were $13 million which was driven by the interest on the convertible bonds and interests and expenses on our loan and guarantees facility.

The tax cost for the period was $25 million which equated to an effective tax rate of approximately 35%. This is in line with expectations and is mainly a function of the geographical project mix. EPS is 14 cents for the period and, as you can see, we've used the weighted average share count to reflect the impact of the combination.

Turning now to the cash flow and the balance sheet on slide number eight, excuse me, slide number nine, we had $107 million of cash generated from our operating activities during the period. Cash from investing activities was $125 million which reflected the on-going Capex costs during the period, relating to the *Borealis*, *Antares* and dry docks, and it did include the cash received as a result of the combination.

We took delivery of the *Havila* during the period and have shown the cash outflow here. Following sea trials and the dive system commissioning it will commence work in the summer. The majority of the cash inflow, shown in financing activities, relates to the *Havila*. Q1 cash Capex was approximately $150 million, excluding the *Havila*.

Our expected cash Capex for 2011, excluding the *Havila*, remains at approximately $550 million. This is made up of approximately $220 million for the *Borealis*, approximately $180 million on dry docking and standard vessel and equipment Capex, approximately $80 million on a few small investments, including the *Antares* and the i-Tech ROVs for the Petrobras contract.

We have a number of other new investments of approximately $70 million, which includes some of the upfront investment related to the five-year Statoil IMR contract.

In accordance with the terms and conditions, the $300 million 2.8% June '11 bond will either convert into shares or be repaid by June 2011. We are well prepared for either the repayment of the $229 million outstanding or the conversion into shares. We expect to receive notification of the redemption or conversion from bond holders at the end of May.

Turning now to the balance sheet, we have set out the provisional fair value calculation in note 9 of the announcement. We have made good progress and we will finalise these calculations by the end of the year. We have completed our provisional assessment of the vessel valuation and have conducted reviews of the intangible assets and liabilities as part of the PPA exercise. We have a provisional calculation of $2.4 billion of goodwill that will sit on the balance sheet and be tested for impairment each year end. Our closing cash balance was $890 million.

Finally, turning to slide number ten and the financial assumptions, this is how you might think about the financial statements going forward and your models. Our current run rates for administration expenses is approximately on average $75 million per quarter for the remainder of 2011, but trending lower towards the end of the year. We continue to focus on cost optimisation and we can already see some of the early benefits of this together with our synergy programme beginning to bear fruit.

Our integration plans are being realised across the group and we have set out a run rate of approximately $25 million for the remaining three quarters. We're accelerating the implementation where we can, and the US and Brazil are already ahead of schedule. We are hoping to achieve the bulk of the integration work in 2011.

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 depreciation relating to the fair value uplift of the assets. We then add approximately $10 million relating to December, we add the impact of new vessels for the full year, capitalisation of dry dockings, and some FX impacts of… and all that totals approximately $25 million.

Our finance income will be determined by the cash balances through the year. Finance costs will be driven by the convertible bonds and the, excuse me, the $1 billion facility utilisation. The quarterly run rate will probably be slightly less than the reported figure for Q1 '11 as it includes December and the June '11 bond will be repaid or converted soon. For modelling purposes I would use 35% effective tax rate for the year. Our issued share count stands at 352 million shares, with approximately 11 million held with treasury shares.

In summary, the EBITDA figure of $190 million is in line with our expectations for the period. We've have a number of combination related issues which have impacted the figures this quarter and will continue to do so for the year. We have a robust balance sheet and are conservatively geared. We are well-positioned to continue to win work and realise synergies, and we remain committed to delivering shareholder value.

And with that I'll now pass back to Jean.

Jean Cahuzac – *Subsea 7 - CEO*

Thanks, Simon. So turning to the markets and what it means for Subsea 7 in 2011, let's talk about the conventional market first.

Project awards have been delayed in Nigeria because of the presidential election which took place in April. With this election now behind us we expect more contracts to come to market award later this year, although exact timing remains difficult to predict. With a strong local presence and assets such as the newly acquired *Antares* pipeline barge Subsea 7 is very well-positioned to capture these new opportunities.

In the SURF market a robust oil price and rising tendering activity around the world underpins order book momentum. Execution and activity levels are expected to rise, although in the short-term contracts signed in more challenging market conditions will continue to create some headwinds on the Group's adjusted EBITDA margin for 2011.

In the North Sea positive trends continue as extensive tendering activity is now resulting in awards to the industry both in the UK and in Norway. This will result in enough vessel utilisation in the months to come and better margin later this year and into 2012 when newly awarded projects will come to the execution phase.

In West Africa the impact of recent elections is that the award of a major SURF contract is expected now to be delayed until late 2011, early 2012. A number of the large SURF contracts in Australia are still expected to come to market award this year. The offshore installation phase as the majority of this new project will however not commence before the second part of 2012. And finally in Brazil, after the Guará Lula project award we expect Petrobras to tender this summer for other the large EPIC contracts for their pre-salt field development.

In the short-term integration is on track and we continue to deliver our projects very well. We see activity levels rising in the coming quarters. Medium-term we see clear signs that the trend will be for subsea projects to continue to increase in size and complexity, which should contribute to strong industry growth in the business segments where we participate.

I would like now to turn to your questions, but before we start I would like to comment on what I'm sure you have in mind, I mean the 2011 guidance. When I talked to you last year about Acergy I said that in 2011 revenue would be slightly up, but that we would see margins lower than in 2010. When I think about the combined group my views are very similar. The combined revenue for the year should be up and I expect margins to be somewhat lower than 2010.

I said before we do not plan to give numerical guidance for 2011, but overall I'm comfortable with the outlook for the current financial years. And now we can turn to the questions.

Questions and Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, then please press star one on your telephone and wait for your name to be announced. If you wish to cancel this request at any time, then please press the hash key. Your first question comes from Ian McPherson from Simmons. Please ask your question.

Ian MacPherson - *Simmons*

Hi, yes, thank you. Looking at the… challenging as it is to use the prior periods for modelling purposes going forward, but if we're benchmarking off of operating margins, is the step up, the PPA step up, going to be broadly similar region by region when we're thinking about translating EBIT margins to EBITDA margins? Or is any particular region going to have above or below average step up to the depreciation line?

Simon Crowe – *Subsea 7 - CFO*

Ian, it's Simon here. We've chosen to keep the PPA step up in the corporate segment, so you'll see it in there. The run rate is about $12.5 million a quarter. Roughly that adds up to the $50 million for the year and we've actually allocated it all in that segment, so you should see that run through the corporate segment for the remainder of this year and continuing on. Obviously it's split into assets and intangibles so that number will change over the coming years, but that's where we've chosen to allocate it.

Ian MacPherson - *Simmons*

Okay. And with regard to the commentary on the North Sea, improving, it sounds like it continues to improve methodically each time we hear from you month by month and at this point can you provide some more colour on, you know, how it's shaping up? Is the season commencing earlier in the spring than it otherwise would and is the margin visibility necessarily better than margins last year or can you add more on that aspect?

Jean Cahuzac – *Subsea 7 - CEO*

You know, it's always difficult to comment exactly on a quarter basis. I mean, what I can say is that we've seen, starting last year, a significant number of tenders and an increasing number of tenders we've seen in Q1, the tenders coming to award, and therefore activity, as I said before, starting to pick up, starting from March onwards. The more we progress in the year, the more projects with higher margins will be at the level of execution, so it's a trend that we see continuing in foreseeable future.

Ian MacPherson - *Simmons*

Does that suggest that the seasonal volatility is going to be less evident as migrate from Q3 this year to Q4 and into the first half of next year?

Jean Cahuzac – *Subsea 7 - CEO*

No, it's premature to comment on the first year of, the first quarter of next year. There is always a seasonal effect. Looking at the number of tenders, the only thing I can say is that it's been at the highest level that we've seen for quite a while, so it's encouraging but premature to comment on Q1 2012.

Ian MacPherson - *Simmons*

Okay, thank you.

Operator

Thank you for your question. We will now go to Pal Dahl from First Securities. Please ask your question.

Pal Dahl – *First Securities*

Yes, a couple of questions from me. First, could you shed some light on the orders, and how would you describe the orders you've won in Q1? And what's drove the very solid uplift in Q1, and also the orders you've won in Q2 so far?

Jean Cahuzac – *Subsea 7 - CEO*

Well,I think, again, I would make a bit of the same comments regarding quarterly comments, you know. I mean, you have to look at the trends and on a specific quarter it's very difficult to answer. What I can say is when you look at orders in the North Sea it's usually fast-track decision. The operator can react very quickly and move very quickly in terms of approval of partners, etc. When you look at orders in other parts of the world like Africa, the process is always more lengthy. So its far more difficult to predict the exact timing. But what we've seen is a significant increase of number of orders in the North Sea. We have announced a number of large projects: in India a medium sized project I would say, but it's a step milestone for us in India; in Brazil the Guará Lula; in North Sea last project with Statoil, Shell; and a project with BP in the Gulf of Mexico. The only place where we haven't seen things moving yet is the Gulf of Mexico because of the Macondo effect that I mentioned in my script, and then in Australia where, although no large project has been awarded for some time, we expect in the coming couple of months that new projects will be awarded to the industry.

The other thing that you shouldn't forget is the VOs and the escalations on existing projects that we are seeing, and that explains to some extent the very good backlog that we had. That's true around the world, in particular on conventional projects in Africa.

Pal Dahl – *First Securities*

Thank you, and that actually leads me to my second question. I guess normally at this point in the year typically the order book you have for execution for the remainder of the year represents 76% of the revenues you will actually book for the remainder of the year. Are there any issues that would make or should make 2011 differ from this typical trend?

Jean Cahuzac

I would say in general term we're on track, and as I said before, things are moving very fast in the North Sea, so that obviously helps the industry.

Pal Dahl – *First Securities*

Excellent, and just finally, a housekeeping issue here. On the PPA, should we just assume that it will be $50 million per year for every year going forward, or when will that end?

Simon Crowe

No, I would have it in for the next couple of years, the backlog, which is a piece of that PPA, will clearly run off over the next few years. We'll continue to update you in the calls going forward, but $50 million for this year and next and sort of dropping down over the coming years, but we'll keep you informed on each quarterly call.

Pal Dahl – *First Securities*

Thank you very much, and good luck going forward.

Simon Crowe

Thank you.

Operator

Your next question comes from Ryan Kauppila from Citigroup. Please ask your question.

Ryan Kauppila – *Citigroup*

Yes, good afternoon. Sorry to harp on the North Sea, but it was such a build in the quarter. You're back to '08 levels from a backlog perspective. Have you already seen in that backlog a pricing inflection, or are you just saying that you expect that it happens some time in 2011?

Jean Cahuzac

No, we've already seen some newly awarded contracts with improved margins compared with what was awarded in 2010. Obviously these projects have not been in operation yet, so they haven't... you haven't seen the results at the bottom line, so it's a trend with improved margins, a trend will continue in the foreseeable future.

Ryan Kauppila – *Citigroup*

That's perfect. Thanks.

Operator

Your next question comes from Tom Ackermans from Barclays Capital. Please ask your question.

Tom Ackermans – *Barclays Capital*

Yes, good afternoon. Just two quick questions please. First of all, can you give us some more colour in your expectations for the joint ventures, with perhaps some details on both SHL and NKT, and then, secondly, I was just wondering whether you can update us on where you expect to make further investments into the company. I think you've previously mentioned NKT, the Brazilian vessels that are up for tender, and some Life-of-Field work in Angola. I'm just wondering what the progress is there.

Jean Cahuzac

Okay, on the joint venture, it's... I mean, the impact on the joint venture is in line with what we said with Subsea 7. We've seen some more pressure in 2010. We are seeing in 2011 things are going in the right direction. Probably the joint venture results should be in line with 2010.

Regarding investment, you know, it's always... our strategy hasn't changed. We have a strong balance sheet. We are confident on the long term view of the market, but we want to make sure that when we invest it's with discipline and the right level of expected financial return, so you've seen that there are a number of tenders ongoing, and we have submitted offers for vessels, for the PLSVs for Petrobras in Brazil. If we are to win this contract it would be because we would be pleased with the rates and the financial return, it's not for the sake of investing, and I would say this overall discipline in our strategy is what we want to continue to implement worldwide.

Regarding Angola and Life-of-Field with the local content, I would say it should be the same comment. I mean, with the right partner, the right contract and the right expected financial return is something that we will do, and it's something that we can... that we can see on a cas-by-case basis.

Regarding NKT, you know, NKT Flexibles is... our joint venture is, I believe, very strong, especially on the technology side, very highly regarded by our customers, and again, if the joint venture was to present the right plan, and if the plan were to require some investment we, management and the Board will look at it on a case-by-case basis, and we'll decide, same philosophy as for Subsea 7 investment.

Tom Ackermans – *Barclays Capital*

Okay, great. Thanks.

Operator

Your next question comes from Martijn Rats from Morgan Stanley. Please ask your question.

Martijn Rats – *Morgan Stanley*

Yes, good afternoon. I have one more question about the North Sea as well, actually, about your comments about signs of an improving pricing environment, because also in the statement you report vessel utilisation of roundabout 65%, so I was wondering a little bit how you can see prices rising while vessel utilisation is still low.

Are there... is there an effect of old capacity versus new capacity where the new capacity is generating that margin uplift, or is there already higher visibility in terms of vessel utilisation going into the 80s (80%s) later on in the year? How do these things sort of rhyme with each other?

And also, it... as a sort of second question related to the same topic, it's a little bit difficult for us to kind of appreciate what this actually means in the sense that it's very difficult to know what the starting point is from where these prices will improve.

I was hoping that you could sort of make it a little bit more concrete for us by saying something like, well, the prices we are now booking, or the embedded margins in projects that we are now booking are the same as in 2006 or in 2007, or in 2008, or whatever it might be. Is... Would that be possible?

Jean Cahuzac

Let me try to answer your question. First on the vessels, you know, 65%; we have in the North Sea the seasonal effect of a lower activity. that's not new. It's a question also of portfolio and which vessels are idle. We had a fair amount of dry docking in Q1. We had around 380 days of dry dock days with our vessels worldwide.

The thing to remember is that when I look at the business I look at vessel activity. In fact vessel activity, or utilisation, reflect the success that we have on projects, and on providing added value to the customer through the project. We are a project engineering company more than a vessel company. The vessels are enablers, so more activity on the vessel is good from a bottom line perspective, from a vessel activity and cost recovery perspective, but even more than that, it generates more revenue and more margins through the project, so it's not unusual to have this type of utilisation in Q1, and we see it already improving with the order book picking up.

Regarding the margins, the margins are improving, and I'm not going to comment on a project basis or give some commercial information which could be used by some of our competitors on what is our bidding strategy. The only thing I want to say is that we see opportunities to improve margins, and our approach will be to optimise as much as we can, while also optimising our cost, and I think it's what we are doing at the same time when we optimise the use of the vessel, the overall schedule and planning of the new fleet, so we're acting on two things. We are optimising margins and pricing when we can, and at the same time we're optimising our overall cost and vessel... use of the different vessels, which is positive for us and positive for our clients.

Martijn Rats – *Morgan Stanley*

All right, thank you.

Operator

Your next question comes from Kristian Diesen from Pareto Securities. Please ask your question.

Kristian Diesen – *Pareto Securities*

Yes, Kristian from Pareto here. Just going back to your backlog, it looks as if you've booked in the North Sea, including what you've built for the quarter, $1.2 in order intake in the North Sea, $1.2 billion. Could you just, you know, elaborate a bit more on that, and also looking at one of your slides, you've listed 12% of your backlog as awarded in 2011, and that's about $800 million, whereas your inbound orders for the quarter was $1.6 billion, so if you can just provide some colour on that.

Jean Cahuzac

Yes, I mean, it's a combination. First, when you look at backlog, it's a combination of new contracts that we have announced, above $50 million, it's smaller contracts that we haven't announced because they are smaller than $50 million, and it's the escalation on existing projects... additional VOs on existing projects all around the world, in particular in Africa, but also in the North Sea. We also had some, specifically on the North Sea we had a large project which was the Statoil IMR project, which is more than $280 million roughly.

Kristian Diesen – *Pareto Securities*

All right, but what about the 12% of your backlog being 2011 awards, which equates to $800 million, and you've taken in about $1.6 million of orders for the quarter?

Simon Crowe

Yes, as Jean has said, you know, we split it sort of... the announced awards are roughly, you know, $800 million, and then there's lots of VOs and the escalations around the patch. The year of award relates to the year of original award, so it’s sort of half and half if you think about the increase in backlog, but there are some chunky awards which we've announced, and there are some reasonably significant escalations that are running through that number.

Kristian Diesen – *Pareto Securities*

All right, sure, and then how much of your capacity is now booked for 2011? How does the utilisation look for the remainder of the year?

Jean Cahuzac

We are not providing details on that. The only thing I can say is that we have some capacity which is good for opportunities in rising markets later in the year and in 2012.

Kristian Diesen – *Pareto Securities*

All right, just finally on pricing, you’ve mentioned that the smaller scale North Sea projects in general are seeing improved pricing. How about the larger scale projects? Your peers have been commenting that, you know, pricing remains fairly competitive in the large scale projects still. How are you viewing that at the moment?

Jean Cahuzac

The only thing I can say about large projects is that, you know, when you look at large projects which will be executed in 2012, 2013, 2014, when I look at that schedule and I look at our view on the market, which is an improvement market... an improving market, we will not sign contracts on these large projects if we are not pleased with the returns, so it’s also going in the right direction, and it depends on a case-by-case basis, but we need to remain disciplined in the bidding, and we are disciplined.

Kristian Diesen – *Pareto Securities*

All right. Great, thank you.

Operator

Thank you for your question. We will now go to Fiona Maclean from Merrill Lynch. Please ask your question.

Fiona Maclean – *Merrill Lynch*

Yes, Fiona at Merrill Lynch. I've got a couple of things. Firstly, on the North Sea, I have a slightly different question. I want to understand what the latest is on the competition process with your vessels there. Have you got any further updates from the government on that, and secondly, what we've been hearing from all of the operations in terms of these new vessels in Brazil is that you're all going to be very keen to be very restrained towards your return profiles, so could you maybe just give a little bit more colour on are you actually seeing some bids going into that process that are actually very aggressive on the pricing where you potentially have new entrants just willing to go on any level to get a position, and then the third question is just generally in the markets on a global basis, are you seeing any specific hotspots in terms of aggressive competition on pricing?

Jean Cahuzac

Well, the first question I think was relating to the OFT and the remedies that we are committed to do, which is basically the sale of the Falcon. We are reviewing different options and we are discussing with a couple of potential buyers, and that is done together with the OFT, so I would say the process is still ongoing: no particular concern there.

Regarding the bidding on some of the new vessels, in Brazil in particular, I think the industry has submitted bids for the PLSVs. The tenders, or the bids, have not been opened by Petrobras, so it's premature to see what will be proposed. As far as Subsea 7 is concerned, as I mentioned before, our offer is in line with our overall strategy. If we win it will be with a rate that we'll be pleased with.

Regarding the overall bidding strategy of the competition, and what we see around the world, I would say it's... the trend... we see pricing going in the right direction overall. In some cases we see some competition being aggressive on the one off projects because it suits a particular vessels schedule, or any other reason. The trend is going in the right direction, and all that will improve over time, but nothing else. Do you want to add something, Simon?

Simon Crowe

Yes, just on Brazil, I mean, we've got seven vessels there, we've got the Guara Lula contract of $1 billion there, you know, we're well positioned in Brazil, and we're keen to do more in Brazil, but absolutely remaining disciplined. We look at the costs, the inflation, the CAPEX, we run our models, we compare it to our cost to capital and other things we may do with the vessel around the world, and we continue to do that with all of our potential opportunities, so from a CFO perspective that's a must do, and we have to make an adequate return when we're thinking about putting a considerable amount of capital at risk.

Fiona Maclean – *Merrill Lynch*

Yes, I think probably the bigger concern is how new entrants may behave. Just a follow-up on Brazil: are you able to confirm whether the spoolbase will be running at full capacity through the second quarter? Are all of the problems there solved now?

Jean Cahuzac

Well, the problem of coating on the P-55 project have been addressed. We had demobilised the spoolbase when we saw the first problem occurring. Now that this problem has been addressed we are remobilising our people on the spoolbase, and that's happening in Q2, and, operations on P-55 will be in Q3.

Regarding the need of a base for the Guara Lula project, which is really a step change, it's a huge project, we have... we are finalising different plans in Brazil which will allow us to fulfil first the Guara Lula project, but also the long term view that we have in Brazil for EPIC contracts, which is a growing market.

Fiona Maclean – *Merrill Lynch*

Okay, thank you.

Operator

Your next question comes from Phil Lindsay from RBS. Please ask your question.

Phil Lindsay – *RBS*

Yes, hi there. A couple of questions if I could: firstly, on the last call I think you said that you were going to undertake a strategic review to decide the optimum capital structure for Subsea 7 moving forward. What progress have you made on that, and then the second one is just on the North Sea again. Can you just drill down further into perhaps any differential you're seeing between the various segments within the North Sea, and in particular comment on any delays you may or may not be seeing in the UK segment, following the tax changes? Thanks.

Jean Cahuzac

Yes, let me start with the North Sea, and then I will pass it to Simon to answer on the capital structure. First, when we talk about an improved market in the North Sea and encouraging prospects for the future, it's both in the UK and the Norway sectors, so it's on both sides.

When I look at our business in the North Sea I think what the strengths of Subsea 7 is, is in fact we are covering a broad range of business, a broad range of activity in the North Sea, both from the Life-of-Field to the subsea construction to the pipelay, and with different technology, including the bundle activity. So we see more activity in this area, and I shouldn't forget the new frontiers, or let's say the more challenging technical frontiers like the Fareos or West of Shetlandor the Barents Sea. So what we are seeing in the North Sea is Life-of-Field remaining very strong. Not a lot has happened in 2009 and 2010, so the operators and companies like Statoil, are actually reactivating a lot of projects that they have put on hold. That is moving fast.

And later in the year we are going to see activity picking up on pipelay. It's nice for the pipelay vessel utilisation, but even more it's important because around these vessels, when we have projects like that, we have additional activity with older vessels, other spec vessels around the pipelay vessel which helps to improve the overall results.

Regarding the tax question and the tax change question, you've seen the concern expressed by the operators, in particular the gas producing operators. We're obviously following that very closely. We haven't seen anything to date which has impacted our short term or medium term operation, and we are still seeing a fair amount of tenders coming through. It's something that we are monitoring. I'm not at this stage in the business we are in, overly concerned.

Simon Crowe

Yes, and, Phil, regarding the capital structure, we've... we're having discussions with the Board. Those discussions are ongoing. We're comfortable with what we have now post combination. We're looking at all different options, we're reviewing the strategy, so over time we will come to a point where we need to make a decision about things going forward, but work's ongoing, is really all I can say at this point.

Phil Lindsay – *RBS*

Okay, that's fine. Thanks, guys.

Operator

Your next question comes from Frederik Lunde from Carnegie. Please ask your question.

Frederik Lunde – *Carnegie*

Good afternoon. First of all, could you give us a more... an update on the Sonamet ownership state, and, secondly, should we expect any contribution from the *Oleg Strashnov* in the numbers for the remainder of the year?

Jean Cahuzac

Regarding Sonamet, we expect the transfer to occur in Q2 of this year. I know that we have been saying that for a while, and it's always difficult, with the local administration, to be very sure about the exact schedule, but I would say it should happen in Q2.

The *Oleg Strashnov* vessel - should have a campaign starting with Statoil on renewables, which is a several month campaign, which is, I mean, quite encouraging, and we are quite optimistic about the future of this vessel.

Simon Crowe

Freddy, just to clarify on Sonamet, we are hopeful for Q2. We've been holding the asset as an held for sale for some considerable time now. Things don't always go to plan, but we will see if things happen in Q2. It's an ongoing... ongoing still. We're very happy with the position. We enjoy the relationship and the work in Angola, so it doesn't overly concern us.

Frederik Lunde – *Carnegie*

And as to the effect of de-consolidating Sonamet, is it fair to assume lower contribution compared to, for example, in 2010?

Jean Cahuzac

Yes, it's fair to say, but it's a key component of our overall strategy in Angola. In fact, tomorrow I'm flying to Lobito with John Evans, our COO, to celebrate the success of Sonamet with the chairman of Sonangol and for the inauguration of the new headquarters, and our welding and technician school in Angola, and I think it's absolutely, a great message, both from our local partner, from Sonangol, and very important for Subsea 7 to altogether celebrate our success there.

Frederik Lunde – *Carnegie*

That's great. Just a final question from me on the North Sea, I know you have touched on this before, but you had about nearly a billion dollars of orders announced in the North Sea this winter compared about $230 million in the winter of 2009 and 2010, and this was seen as sort of the big swing factor for 2011 numbers when you gave your market comments at the Q4 presentation, so just to summarise, would you say you're more or less bullish now on the North Sea for 2011, and do you still see a sort of upside potential based on available capacity for this year?

Jean Cahuzac

Well, you know, I think what's great for the North Sea, is the combination of a number of things. I mentioned the broad range of services that we can provide to our customers. The market is picking up because of a number of reasons that you know very well, but also, when you look at the combined company, we have a stronger presence in the North Sea, and in terms of overall weight of potential business from a worldwide perspective the North Sea is probably more important than it was for Acergy as a standalone company, so this market is picking up and there is an upside. I think we are well positioned.

Frederick Lunde – *Carnedie*

Thanks.

Operator

Your next question comes from Andrew Dobbing from JP Morgan. Please ask your question.

Andrew Dobbing – *JP Morgan*

Yes, good afternoon. A couple of questions please. You said the complexity of projects is increasing. Do you think the risk of cost overruns is also increasing because of this, or should we view pricing in contingency margins, and, I guess, most importantly, your execution capability is sufficient to counterbalance this risk, and secondly, how far are you willing to go in terms of holding back particularly large vessels in anticipation of an improving pricing environment? Thank you.

Jean Cahuzac

Well, first on the projects, you know, when I refer to the complexity of the project and these projects becoming larger and more complex, I think I would look at it from a different perspective than what you just mentioned. I think it's a great opportunity for a company like Subsea 7 post merger, because there are not so many companies around the world which can actually handle this project and have the engineering and the project management capabilities, so it's... we have a way of differentiation in this project that maybe some of our competitors do not have.

In terms of the execution, one of the things we were looking at and we've focused was on the execution of these projects post merger. I mentioned before, when you merge companies there is always a potential risk of losing focus and have some disruptions. We are not seeing that. We are still delivering in projects, and I think that applies to small projects and large projects.

When we bid these large projects we build up a level of contingency in our pricing which reflects the difficulty of the project, the... what's resides in supply chain and everything else, so I'm comfortable with the contingency that we have in these projects.

The other point I would say is that with the combined fleet now we have more backup for this project. We have more backup in terms of different solutions with the vessels, better vessels which meets the requirements of the project. We have more backup in engineering; we have more backup in project management.

I think the level of comfort I have in this project is probably higher now than it was before the merger, and when we talk about level of profitability or margin we are bidding this project at a level that we are pleased with, and that means that we are going to lose some of them, and we will win... the ones we will win will be with the margin we want, so it's the large projects outlook is a plus for us.

In terms of holding vessels, you know, it's important that the vessels are available for these large projects, and then on the spot market we try to optimise what we can do, and in the past, in 2010, it has been to go with low margin on projects because there was limited opportunity. There are more and more opportunities, so we should be able to improve on the spot market a little bit.

Frederik Lunde – *Carnegie*

That's very kind, thank you.

Operator

Your final question now comes from Amy Wong from UBS. Please ask your question.

Amy Wong – *UBS*

Hi there. I have two questions please. The first one is related to your cash balance. You've obviously had very good order intake during the quarter as well, so can you let us know if there's a significant amount of customer prepayments, and how much that would be in your cash balance, and also, my second question is related to project completion. You have a number of projects that are 80 to 90 percentage of completion, so when you give us your adjusted... your EBITDA margin guidance of lower in 2011, what's your assumption in terms of perhaps contingency releases related to projects that will be completed in 2011?

Simon Crowe

Well, in terms of the cash balance from customers, we don't comment on that. We obviously sign up to the different conditions and payment guarantees and in some cases we get some cash up front, but I'm very comfortable with the position that we're at.

In terms of project progression, things progress, as you know, and we will release things in the year as and when we make the milestones, and again, we don't comment on a project by project basis.

Jean Cahuzac

I think it's fair. I think on the cash side it's obviously important for us to optimise the cash through the life of the project, and that is one thing we're focusing on when we submit our bid. The cash management is very important in our business, and I think we are able to do a rather good job in that.

Amy Wong – *UBS*

All right, thank you very much.

Jean Cahuzac

All right, I think we've come to the end of the questions. I would like to thank everybody for participating, and, as I mentioned at the beginning, in our last call we were quite optimistic regarding the combination of the two companies. It was key for the long term strategy. It was also very key that it worked from day one, and that we kept the right focus on project execution and on business acquisition, and in conclusion I would say that I'm very pleased, I'm very comfortable with the way this merger is going, and I think it's a reason to be optimistic for the future. Thank you very much.

Operator

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