SUBSEA 7 S.A.

Third Quarter 2014 Results
Conference Call Transcript

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Speakers:

Jean Cahuzac, Chief Executive Officer
Ricardo Rosa, Chief Financial Officer
John Evans, Chief Operating Officer
Keith Russell, Investor Relations Director

Operator: Hello and welcome to the Subsea 7 Third Quarter 2014 Results Conference Call. Throughout this call, all participants will be in a listen-only mode and afterwards there will be a question and answer session. Just to remind you, this session is being recorded. I now hand you over to our moderator for today, Keith Russell, Investor Relations Director for Subsea 7.

Keith Russell: Thank you Jerry. Welcome, everyone, to this conference call and webcast covering our results for the third quarter and indeed the first nine months of 2014. Here on the call with me are Jean Cahuzac, our Chief Executive Officer, Ricardo Rosa, our CFO, and also John Evans, our Chief Operating Officer.

The full press release containing the results can be found in the investor relations section of our corporate website, along with the presentation slides we'll be referring to on today's call. We'll be following our usual format today for quarterly earnings calls. Jean and Ricardo have prepared comments that will be supported by the presentation, following which they and John Evans will be pleased to answer your questions. In the interest of fairness, we ask again that questioners please limit themselves to two questions each, at least in the first round, to allow everyone an opportunity to ask questions.

Before we start the presentation, I just need to draw your attention to slide number two in the webcast and in the presentation deck, which is the disclaimer covering forward-looking statements in the context of this presentation. So with that introduction, I turn the microphone over to Jean.

Jean Cahuzac: Thank you Keith, and good afternoon to everybody. I will start by summarising the main elements of our third quarter 2014 performance before handing over to Ricardo, who will cover the financials in more detail. I will then conclude with some observations on the market and the outlook for our business for the balance of the year and for 2015.

Let's look first at the highlights for the quarter on slide three. The third quarter was a strong quarter, both operationally and financially, for Subsea 7. Group revenue was $1.9 billion, an increase of 22% from the prior year quarter, with each Territory increasing its activity. An adjusted EBITDA margin of 22% was achieved, owing to the high activity level and good overall execution. Diluted earnings per share at $0.57 represents a 36% increase from the prior year's third quarter. Cash flow from operations was also strong in the quarter.

Moving now to operations, I'm very pleased to report continuing good execution across our project portfolio. In West Africa, the Block 31 GES and CLOV projects were substantially completed in the third quarter, while good progress was also made on the OFON 2, Erha North, TEN and Lianzi projects. In Mexico, the Line 60 project was completed and Line 67 is nearing completion, while in the US Gulf of Mexico, the Cardona and Heidelberg projects advance well.

In APME, Gorgon, HLTI in Australia and G1 in India were again the main contributors to revenue.

In Brazil, the financial turn-around is now firmly in place, supported by good execution. The final stages of the execution on the Guará-Lula NE project continued to go well, with 22 of the 27 risers successfully installed by the end of Q3. Today three more risers are in place, with two remaining to go. This effective execution and de-risking of the project, which is on track for the riser installation to be completed by year-end, allowed us to reduce the estimated full-life project loss provision by about $40 million in the third quarter. Our PSLV fleet in Brazil also performed well with high levels of utilisation achieved; and the first full quarter of operation of the *Seven Waves* has been very successful.

In the North Sea and Canada, a number of projects were successfully completed including Delta S2 in Norway, the West Franklin and Dong Caisson repair projects in the UK and Danish sectors, and Suncor Phase 4 offshore Canada.

Our Life-of-Field activity had another good quarter, based on the strong demand for our services in the North Sea, particularly in the UK.

Global vessel utilisation was high in Q3 at 91%, which was a clear increase from the 86% level achieved in the third quarter of 2013.

Turning to slide four, which provides further detail on our order intake and backlog. We ended Q3 with an order backlog of $9.4 billion, after taking account a negative $300 million foreign exchange impact on the order book. Actual order intake for the third quarter was about $400 million before foreign exchange impacts. This included contracts below $50 million in value and escalations on existing contracts, in addition to the announced Baobab Phase 3 contract in the Ivory Coast. This low level of order intake reflects the slowdown in the pace of awards in the SURF business overall and the postponement of a number of major projects awards on which we have tendered. There was also a lower level of escalations on existing contracts compared to the high levels realised in the first two quarters of the year.

During the quarter, a number of large project awards, for which we believe we were very well-positioned, were postponed by the operators. This is of course disappointing, but I remain confident in our ability to secure a good share of the available market going forward. We continue to get very positive messages from our clients who rely on our ability to deliver their projects safely and efficiently.

When I speak about market conditions later on the call, I will mention several large SURF projects, which we believe have a good chance of being awarded to the market over the next quarters.

With that brief summary I shall pass you to Ricardo, who will talk you through the numbers in more detail.

Ricardo Rosa: Thank you Jean, and good afternoon, everyone. Jean has given you an overview of the quarter, and I will now provide more detail on the consolidated income statement and the Territories' operating results for the third quarter of 2014, then comment on the cash flow for the first nine months of the year.

Let's first look at highlights of the income statement on slide five. Third quarter revenue of $1.9 billion was 22% above that recorded in the same quarter of 2013. Compared to the prior year period, activity levels were higher in all four Territories. Third quarter net operating income was $324 million, which was up 20% on the third quarter of 2013.

After deducting net finance costs of $2 million and other losses of $34 million, income before taxes was $288 million, which was nearly 32% higher than the $219 million achieved in the third quarter of 2013.

The $83 million tax charge for the quarter was equivalent to an effective tax rate of 29%, which was slightly above our revised guidance for the full year. Net income for the quarter was $206 million, resulting in diluted earnings per share of $0.57.

I will now turn to slide six on the Territories' operational performance in Q3.

Africa, Gulf of Mexico and Mediterranean had revenues of $624 million for the quarter, which was a 7% increase from the year earlier. Net operating income at $83 million gave rise to a net operating margin of 13.3%, compared to 16% in the third quarter of 2013. The reduction in the Territory's margin resulted mainly from the timing of the Lianzi and Erha projects in West Africa, which were executing the early stages of their offshore phases during the quarter.

Asia Pacific and Middle East delivered revenue of $246 million, an increase of $173 million from the prior year quarter owing largely to the continued execution offshore of the Heavy Lift and Tie-ins project on the Gorgon Fields in Australia, on which we recognise 100% of project revenue and SapuraAcergy, our joint venture, acts as sub-contractor. Other contributors to revenue were the Bay Undan and Ningaloo projects offshore Australia and the G1 project offshore India.

Net operating income was $35 million, up from $30 million in the prior year's third quarter. The decline in margin was caused mainly by a lower level of contribution from the SapuraAcergy joint venture, which is executing the Gumusut-Kakap project in Malaysia during the third quarter of 2013, and from a relatively low margin recognition on the Gorgon Heavy Lift and Tie-ins project while we finalise negotiations with the client to convert some elements of the project from a lump sum to a profited reimbursable basis.

In Brazil, revenue increased moderately in the third quarter to $249 million from $233 million in the third quarter of 2013. Our fleet of PSLVs had high levels of utilisation during the quarter and the offshore phase of the Guará-Lula North East project continues to progress well. The Territory recorded net operating income of $88 million, which included a reduction of approximately $40 million in the full-life project loss previously recognised on the Guará-Lula project. This compares favourably with a net operating income of $10 million reported in the third quarter of 2013. Good execution of the risers installation programme on the Guará-Lula project, with 22 of the 27 risers successfully installed by the end of Q3, has significantly de-risked the project and allowed us to further reduce the estimated full-life project loss.

The North Sea and Canada Territory generated revenue of $784 million, an increase of $114 million from the prior year period, while net operating income amounted to $109 million, which was $2 million lower than in the third quarter of 2013. This increase in revenue compared to the third quarter of 2013 was primarily due to high levels of SURF and Life-of-Field activity, with good progression of projects offshore and high vessel utilisation. Vessel utilisation in the Territory reached 93% for the quarter, up from 92% in the same period last year. Net operating income in the North Sea and Canada was adversely impacted by an $11 million provision relating to lease costs from a building we recently vacated in Norway with the objective of reducing future administration expenses.

Lastly, the corporate segment has net operating income of $10 million compared to $24 million in the previous year's period. The decline was primarily due to reduced contribution from the Seaway Heavy Lifting joint venture, caused mainly by lower renewables activity in the period.

Slide seven provides supplementary details on the income statement, some of which I have already commented on. The contribution from joint ventures was down materially from the year before, due mainly to the reduced profitability of SapuraAcergy and Seaway Heavy Lifting. Net finance costs were down $10 million from the prior year period, due mainly to the maturing of the $500 million convertible notes in October 2013 and a higher amount of capitalised interest due to the relative stage of completion of the five vessels under construction. Other losses of $34 million primarily reflected net foreign exchange losses totalling $35 million incurred in the quarter, following the strengthening of the US dollar against the Norwegian kroner, the British pound and the Brazilian real.

I now turn to slide eight, which provides an overview of cash flow over the first nine months of 2014. Net cash generated from operating activities totalled $1,070 million in the first nine months of 2014, with a decrease in net operating assets of $170 million in the same period making a significant contribution. We continue to focus on working capital discipline and have improved our current receivables profile in most of our Territories.

Net cash used in investing activities amounted to $600 million, which included $635 million of capital expenditure largely on the construction of the remaining five vessels in our new-build vessel programme. Net cash used in financing activities was $410 million, which included the cash dividend of $195 million paid in July. $122 million was spent in repurchasing shares during the first nine months of the year, and the repurchase at par of $79 million of the 2014 convertible bonds ahead of their maturity in October of this year.

As reflected on the summary balance sheet on slide nine, we ended the quarter with a cash and cash equivalent balance of $662 million, a slight increase of $12 million since the start of 2014. Total borrowings at the end of September stood at $844 million, a decrease of $67 million from the start of the year owing to the cancellation of convertible bonds repurchased in the third quarter offset by accretion on the convertible bonds still outstanding.

Moving on to slide ten, we reaffirm our financial guidance for the full year 2014 with respect to group revenue and adjusted EBITDA. We expect group revenue to increase from the level achieved in 2013. Our adjusted EBITDA is anticipated to increase moderately from the 2013 level of $1.336 billion after adjusting for the $355 million Guará-Lula loss provision recognised in that year.

Owing to the re-phasing of capital expenditures, particularly on the new-build vessel programme, we have refined our full year capex guidance to between $950 million and $1 billion for the year. We have also tightened the ranges for estimated capital expenditures for the different asset categories, as you can see on the slide. Similarly, we have refined the full year 2014 guidance with the other net income related categories and reduced the full year effective tax rate guidance to between 26% and 28%.

We continue to return cash to shareholders. Through 30th September this year we have spent $122 million to repurchase approximately 12.5 million shares under two successive $200 million share repurchase programmes, the first of which was completed in the course of July with a purchase of 1.3 million shares. On 31st July our board subsequently authorised a new $200 million share repurchase programme that is currently being executed and under which we acquired 400,000 shares in the quarter. We are also taking steps to reduce potential dilution to shareholders. During the quarter we repurchased and cancelled $79 million of $275 million 2014 convertible bonds, thus reducing the amount available for conversion when the bonds matured on 13th October this year.

In addition, we have repurchased $46 million of $700 million 2017 convertible bonds at prevailing market value. The repurchases offered an attractive yield to maturity and it will have a positive impact on diluted earnings per share going forward. We view these measures as an effective complement to our share repurchase programme.

Lastly, we have called an Extraordinary General Meeting to be held later this month at which, among other matters, we seek approval from shareholders for the cancellation of some 19.6 million shares, which the company currently holds in treasury. On the financing side, during the quarter, we put in place a new five-year revolving credit and guarantee facility totalling $500 million on favourable terms. This provides us with a cost-effective source of liquidity and has allowed us to cancel the pre-existing facilities which had given us access to $400 million of liquidity on a revolving credit basis.

On slide 11 we have provided an update of the actual to-date and future expected capital expenditure relating to the vessel new-build programme. I am pleased to reiterate this programme continues to be executed in line with our cost and timing expectations.

Details of the six vessels can be seen on slide 12. The Seven Waves successfully completed her first full quarter of operation in Brazil, and the target dates for the remaining five vessels to start operations remain unchanged.

I will now pass you back to Jean to comment further on the markets and our outlook.

Jean Cahuzac: Thank you Ricardo. Let's turn now to slide 13. The uncertainty over the timing of market awards on SURF projects that we have been speaking about all year continued in the third quarter. The oil price weakness that we experienced throughout the third quarter adds to the uncertainty. A number of major potential awards that we had expected to be awarded to the market in Q3 were postponed, including Gehem-Gendalo in Indonesia and the Maria and Zidane projects in Norway. However, tender activity remains high in Africa, the Gulf of Mexico, the Mediterranean Sea and Asia. Uncertainty on timing of project awards however remains.

Demand for Life-of-Field remains strong in the UK sector of the North Sea and we expect this high level of demand to continue in 2015. In our Conventional business offshore Nigeria local authorities seem to be making progress to resolve financing issues for new projects, and tendering activity is increasing.

I would like now to refer a bit more detail on the outlook by Territory for the forthcoming six to 12 months.

Let's turn to slide 14. Firstly Africa and the Gulf of Mexico. In West and East Africa, tendering for SURF activity continues at a high level, as it has been throughout this year. However, as we have said it before, the timing of awards for some projects is uncertain, particularly in West and East Africa. We believe, however, that there is a good chance that the following projects may be awarded to markets over the next 12 months: West Nile Delta in Egypt, Bonga South West in Nigeria, Zinia Phase 2 and Chissonga in Angola. We have recently experienced pickup in tendering activity confirmed for Conventional projects offshore Nigeria, as I mentioned before. In particular, the Satellite Field Phase 2 is another large project that may be awarded to market in the first half of 2015. We also expect a number of small-to-medium sized SURF projects in the US Gulf of Mexico to be awarded to the market over the next several months as activity levels among independent operators are increasing.

In APME on slide 15, we see emerging deep water prospects in Asia with potential market awards of large projects postponed into 2015. This includes projects such as Gehem-Gendalo in Indonesia and the KG-D6 and Vashista project in India. High development and operating costs in Australia continue to dampen the willingness of operators to commit to new capex projects there. However, there is some tendering activity on potential Life-of-Field contracts in this country.

Turning to side 16. In Brazil our PLSV fleet is operating well with high levels of utilisation, and this is expected to continue. All contracts have now renewed on a higher day rate and the Seven Waves had her first full quarter of operations. As mentioned before, the Guará-Lula North East project is in its final stages of execution with the riser installation campaign going well and expected to complete in December this year as planned. Full commission of all risers will be completed in Q1 2015, as per our planned schedule.

Brazil is a country where we see good opportunities for the future. As you know, Petrobras has planned up to 20 FPSOs to be installed by 2020. This will require the design and installation of both Flexible and Rigid pipe complex systems, technologies areas where Subsea 7 is recognised as one of the industry leaders. We haven't changed our approach regarding the acceptable risk profile that we can accept for these large projects, but I must say that we are making good progress in the discussion with Petrobras around a new risk sharing model and are now confident that a solution acceptable to both parties will be achieved.

Let's turn to slide 17. In the North Sea and Canada, a number of SURF projects we had expected to be awarded to the market in Q3 have been postponed. We do expect the Maria project to be awarded to market in the first half of 2015, however. As is well known, Statoil will not be awarding any large SURF contracts until the second half of '15 at the earliest. Otherwise, there is a limited number of SURF opportunities in the UK sector and offshore Canada that we intend to pursue. Meanwhile, demand for Life-of-Field services continues to be strong, as evidenced by high vessel utilisation in the Territory in Q3. We see no reason why this high level of activity will not continue in 2015. While we are cautious on the near-term outlook for this Territory, we should bear in mind that the longer term prospects remain good, particularly for development in the harsher climates of Norway and Eastern Canada.

Turning to slide 18, I would like to provide you with some tangible examples of leading technology we are employing on major projects. It is clearly a differentiator for us. We are proud of our track record in utilising advanced technology solutions developed by us to help our clients achieve more cost-effective projects. As mentioned, we are currently completing the Guará-Lula projects where we are installing the last steel catenary risers. These risers include the first reeled installation of BuBi® mechanically lined pipe. But that doesn't stop there: we are also going to be installing these pipes on the complex Aasta Hansteen development in North Norway in 2015. In both of these examples, the installation of the pipelines and riser utilising this technology has been a key driver in the commercial viability of the developments. We continue to work in collaboration with Butting to further develop this pipe for reeled installation including high-strength, stainless steel options for ultra-deep-water and higher pressure application.

In addition to the increasing demand for corrosion-resistant pipelines, the most significant technology requirement for the development of the complex reservoir encountered today is the requirement for high-performance, pipe-in-pipe solutions. This includes the requirement to heat the product and our efficient Electric Heat Traced Flow lines technology offers one of the most thermally efficient pipeline systems. We are offering this technology on a large project we are tendering for in West Africa and really believe that this technology is key for the commercial viability of the project.

Our Bundle technology continues to be in high demand and we have installed three Bundles in the North Sea so far in 2014, with seven more Bundles to be installed by mid-2016. I think altogether it will be about 78 bundles installed. In particular, we can see this technology being particularly suited to the growth in demand for subsea processing where the towheads can accommodate the increased hardware associated with processing on the seabed. A number of our clients who have experienced successfully our bundles are asking if we can apply the technology in certain other geographies, which we are exploring, and of course bodes well for the future of this unique offering.

And our Seaway Heavy-Lifting joint venture installed the largest float-over wind-farm topside substation in 2014, which is an example of technology developed in the oil and gas industry being successfully applied to the renewable energy sector by our partners at SHL.

I move now to slide 19. Our sector's market is facing uncertainty, but we are well-positioned to face these uncertainties as we are proactively adapting to the new paradigm and continue to focus on both short- and long-term priorities. First, we are one of the few companies which can help our clients to achieve their objective of project cost reduction and to make their field development viable. We continue to demonstrate our ability to execute, in a consistent and safe manner, our clients' projects. We are making best use of our engineering and procurement expertise by engaging with clients early and working collaboratively with them in an effort to reduce overall field development costs. We are also utilising our proprietary technologies by offering alternative, cost-effective solutions for our clients, as I've just described in those examples.

We are committed to adapting our organisation and cost to activity trends. Our Brazil reorganisation completed in 2014 is allowing us to deliver the financial turnaround in this country as planned. But we are also reviewing other locations worldwide. You have seen our recent announcement in

Norway, where we plan to adjust the size of our organisation in line with the slowdown of activity that we forecast. All this is planned and executed, giving full consideration to the need to retain critical expertise for the project that will be sanctioned in the future.

We also continue our fleet rationalisation programme. Among our own vessels, there are some that are reaching the end of their useful life and others with more generic or limited capabilities. As our remaining new-build vessels become operational – you can see the dates on slide 12 – we will review the potential sale of certain ships at the appropriate time. I also want to mention that about a third of our 40 vessels operate on long-term charters with third party owners, we are currently reviewing which of these vessels will no longer be needed and we'll consider not renewing charters when they expire. This can have a very meaningful impact on operating lease costs from 2016 onwards.

So turning to slide 20 for a summary, looking first at 2014, in spite of a more challenging business environment, the third quarter was a strong quarter, both operationally and financially for Subsea 7 with good vessel utilisation. Overall, we continue to deliver our projects very well. Our order intake has declined during the quarter, as our clients have continued to delay market awards of large projects and Norway's short term activity has been slowing down. Nevertheless, we have reaffirmed our financial guidance for the full year 2014.

Now, regarding 2015 we are in discussion with our clients to understand their views on the impact of the recent drop of the oil price. It is clear that some of them are still assessing this new situation. Uncertainty on timing of project awards to market will continue during the final quarter of the year and in 2015. We note that the market has projected a revenue decline for Subsea 7 in 2015; we have a similar view.

We have said that our order backlog and execution plans provide a sound basis for 2015. There are a number of factors which give me confidence to make such a statement. We clearly remain competitive in this challenging environment. This is not only true for large EPIC projects, but also for small- and middle-sized projects. We have a good quality backlog to be executed next year, with solid margins. We have a sound multi-year backlog associated with vessels on day-rate contracts in Brazil and in North Sea, which should deliver good financial results in the long-term. And we will also continue to adapt to changing market conditions, as I have described earlier, with a focus on reducing operating costs without jeopardising our competitiveness and readiness to seize opportunities that will come.

In conclusion, the present challenge that our sector is facing do not diminish our belief that we are well-positioned in a market segment whose fundamentals remain very positive.

And now Ricardo, John and I will be pleased to answer your questions.

Operator: Thank you very much. Ladies and gentlemen, we will now begin our question and answer session. If you would like to ask a question, please press 01 on your telephone keypads. You may press 02 at any time to withdraw your question. And there will now be a brief pause while questions are being registered.

And our first question comes from the line of Andrew Dobbing of SEB. Please go ahead. Your line is now open.

Andrew Dobbing: Good afternoon. I'd like to start by focusing on the North Sea, if possible. The backlog dropped by almost $900 million in the quarter. I assume that some of that $300 million currency exchanges is in that region in particular. There are a lot of projects that are kind of coming to completion or I think approaching completion at the moment. Do you plan to move vessels out of that region during 2015? And if that's the case, where do you think they'll move to? Or do you plan to retire vessels or stack vessels, warm stack vessels while that kind of market slows down?

And secondly I know it's a lot of focus on '15. As you say 2015 is very well protected by the backlog, good pricing etc. Maybe it's a little bit premature to start talking about '16 but I guess this slowdown of the market and slowdown of awards is really going to have more of an impact on '16 than '15, because you don't have that coverage. Are you willing to say anything about '16 this early? Thanks very much.

Jean Cahuzac: Thank you Andrew for your questions. I'll start with '16. It's premature to comment on '16. There are a lot of things which can move in either direction before we have a good idea on what '16 will be. Regarding '15, I'm going to ask John to answer your questions on the vessels and our plans.

John Evans: So Andrew, in the North Sea it's actually the other way around. We actually have three vessels coming back into the North Sea for next year. The Skandi Acergy returns from Asia Pacific to take some fixed work that we have on in the North Sea. The Navica, having done some work in the Gulf of Mexico, will return for a campaign in the North Sea, starting relatively early next year in February/March time, and the Oceans will come out of Africa to also do the Aasta Hansteen work in the North Sea. As Jean mentioned earlier, we have a number of vessels on long-term contract there, on day rate, 365-day type contracts, which will continue throughout next year. And also the Life-of-Field and maintenance activities that we do for our clients don't show any sign at the moment of changing for the North Sea.

Andrew Dobbing: It's hard to kind of correlate that with such a big decline in the order backlog. Is the order backlog of much shorter duration than it typically is in the North Sea?

John Evans: Well, it's a combination of the two sides. There's been a currency effect, Riccardo, isn't there, with the North Sea backlog, which again we take on generally in Sterling and in NOK. So there's an effect in there which we flagged up.

Ricardo Rosa: That is correct.

John Evans: And secondly then, as Jean says, as we look into '16 and '17, the speed at which clients in the North Sea – and in particular Jean said Statoil – are committing to projects at the moment has been delayed.

Jean Cahuzac: Yes, I would make a difference between Norway and the UK. I think the decision of Statoil to postpone a significant number of their projects and put some other projects on hold, had without any doubt, an impact on order intake for the sector in Q3. An example is the Maria project, for instance, which is not a Statoil project –

Andrew Dobbing: Okay.

Jean Cahuzac: – but was connected to a Statoil topside, and there was some delays because of that. It's not a Statoil project; it was related to some Statoil decisions.

Andrew Dobbing: Okay. Thanks very much.

Operator: Thank you. Our next question comes from the line of Mick Pickup of Barclays. Please go ahead. Your line is now open.

Mick Pickup: Good afternoon gents. A couple of questions, if I may. Firstly I think John, just a starter there: can you just run through what you've got on the books for the bigger assets next year and what's actually already in the books, and where do we think we might have potential issues on utilisation? And secondly, I know you've been busy on the convert this quarter but the actual repurchase of shares seems to be a bit slower than I would have expected. Are there any terms on that buyback we should be aware of that's prohibiting you from stepping up?

Jean Cahuzac: Mick, thanks for your question. I'm going to ask first John to answer on the bigger assets and then Riccardo will take the convert question.

John Evans: Yeah, so Mick, on the bigger assets such as the Borealis, she has a very busy season next year. She is presently in the States at the moment; she then moves back to work in Africa, and she will be finishing the year on Ghana work for Tullow TEN towards the end of the year. So we have a reasonable workload for her. Similarly with the Oceans, Oceans will complete Guará-Lula, go and do Lianzi, and then go up and do Aasta Hansteen. So again, we have a reasonable backlog on the big assets there. So – and as you can see, things like the Skandi Acergy coming back in to do some work that we have on the contract in the North Sea with Martin Linge's next phase, Aasta Hansteen's phases, as well as some of the Bundle installation projects that we have coming ahead of us next year. We have Talisman work going ahead on Bundle work. We also have Dana Western Isles, there's big Bundles to go out next year.

So in terms of the very big assets that catch people's eyes, we have a reasonable firm workload for those assets. There are some gaps, but as we go into '15 we have a reasonable workload for the main machines.

Jean Cahuzac: And Ricardo, on the convertible, maybe some comments on our overall approach for share buyback and the convertible?

Ricardo Rosa: Yes, you know, Mick, I think I have already made some additional comments about our strategy there with regard both to shares and to bond repurchases. But on the shares side, as you know, we have in place a programme that incorporates various safe harbour constraints and guidelines on share price levels. This allows us to repurchase shares without concern for blackout periods, but it does not mean that we are constantly in the market buying or buying in big lots. And I think, you know, you need to look at our share repurchase programme in the context of our disciplined approach to maintain balance sheet strength, liquidity and our capital investment strategy.

So, you know, the current environment we will consider investment opportunities if they offer very attractive returns, but absent such opportunities our focus will be on sustaining the business through the cyclical downturn and returning cash to shareholders as appropriate. So the share repurchase programme, which the Board has mandated at $200 million, is valid through to July next year. And as I said earlier, it's been structured such that we will enter the market within certain guidelines.

Jean Cahuzac: And I would like just to add on comment, is to remind everybody that our ongoing new-build programme will be fully completed in Q1 2016 –

Mick Pickup: Okay. Thanks gents.

Jean Cahuzac: – which will be a major milestone.

Mick Pickup: Okay. Cheers.

Operator: Thank you. Our next question comes from the line of Rob Pullin of Morgan Stanley. Please go ahead. Your line is now open.

Rob Pullin: Yeah, thank you. Good afternoon gentlemen. A few questions, if I may. The first one is if we exclude the $75 million of loss reversal from Guará-Lula, because obviously things are going better than expected from last year when you made the provision, would EBITDA for this year still be above the clean level from next year – sorry, clean level from last year? That's the first question.

The second question is in the North Sea, even after adjusting for the $11 million provision, the margin was quite a bit lower than Q3 last year. I was just wondering if you could give some colour as to why that was. I thought it a bit surprising, given the high utilisation of vessels. And the third question, if I may, regarding Brazil – excluding the loss reversal, it was a fantastic margin in Brazil. Is that what we should get used to going forward? Thank you very much.

Jean Cahuzac: I'm going to take the question on North Sea and then pass the mike to Riccardo, if I can say it that way. Regarding North Sea, I mean, one thing you have to remember, that for some extent the portfolio of project that we have in the North Sea has changed and we have some large EPIC projects, which are successfully being executed, like Martin Linge. And – but depending upon the POC and depending upon the progress in a given quarter, I mean, it can have an impact on when are the profits recognised as the bottom line etc. So the results of the North Sea are in line with expectations, with a bit of a different portfolio of projects.

Regarding the numbers, Ricardo?

Ricardo Rosa: Yes, Jean. Well, I think the first comment on the Guará-Lula full life project loss reversal is that you have to bear in mind that the reversal is the result of our excellent execution of this phase of the project, and therefore should not be considered as something that you should necessarily add back in determining the level of profitability in the year. This being said, if you do make that calculation, our EBITDA for this year net of that still remains in line or slightly above that we have seen or that we registered last year, excluding the full life loss provision.

As far as the profitability in Brazil is concerned, as you know, in our industry, it's somewhat difficult to compare quarter to quarter profitability very closely because there are many moving parts. And in a relatively small territory like Brazil, such moving parts can give rise to a certain amount of volatility at the net operating income level. But what I can say is that excluding the Guará-Lula adjustment, the net operating income in Brazil benefitted from a number of positive factors, including a very high vessel utilisation, a full quarter of the Seven Waves which contributed obviously to NOI in absolute terms, as well as some non-operational improvements – we took some non-operational charges last quarter – and as well as some positive closeouts on other contracts that had some long tails.

Jean Cahuzac: And more contribution is to be expected for the new-build when they start operations in the month and year to come.

Rob Pullin: Okay. That's extremely helpful. Thank you very much.

Operator: Thank you. Our next question comes from the line of Christyan Malek of Nomura. Please go ahead. Your line is now open.

Christyan Malek: Hi, good afternoon gentlemen, just one question from me. You mentioned you were fairly comfortable with market expectations for revenue decline in '15, yet haven't addressed what the implications would be on margin. Now with your PSLVs ramping up and utilisations improving, can you give us, even sort of conceptually, how you see margins trending over the next 12 to 18 months in the absence of – well, as backlog falls now – but also in the absence of major project awards potentially in H1? What is your base case scenario?

Jean Cahuzac: Well, I mean first, if I talk from a general perspective about margin, we are working in very different geographical locations, with different types of projects, different types of competition etc. So the profitability that we can get on projects depends a lot on where the projects are, what the type of projects are and who is the competition. When we talk about very large projects, because the number of companies who are – who can execute large projects is more limited, there is a bit more room than there is on the small projects in SURF. So we are seeing and we will see in the months to come more pressure on margins on small/middle-sized projects in some geographical areas, such as North Sea or Gulf of Mexico for instance, where there is an active competition and more competition than in some other places.

The reason why we are cautious and on comments on margins for 2015 is what I said in my introduction. What has changed over the last two months or so is this evolution of the price of oil going down and it is difficult today to have a good grasp on the volume of activities that will be in addition to already signed scope of work on existing projects, as well as on small projects which will be awarded to the industry. That's why we remain a bit cautious, but that doesn't change my comment about '15, is that we are starting '15 on a very sound ground and that has to be taken into account when we try to forecast what might happen.

Christyan Malek: Right. Looking further out, sort of again on a sort of medium-term basis, if this trend continues in projects being delayed, to what extent will operational gearing start to – or you know, asset turns for – in that can you – you can clearly see your schedule out for the next two years. You've talked about costs being taken out. Can you quantify those costs over the next 12 to 18 months? And the second question is around that, can you talk directionally how you see margins moving against your current schedule? On aggregate.

Jean Cahuzac: First to talk about the large projects being delayed, which is a factor today and that we see continuing in the months to come, you know, I cannot imagine a situation where everything is delayed. I think there are some good projects today which will materialise. I cannot tell you which quarter, but I know they will materialise and be awarded to the market. And I also know that we are competitive and we will get our share of this market. I just can't tell you exactly when. So I may not be as pessimistic as you are regarding the trend of postponement of these large projects, but I don't know. So let's be cautious.

Regarding the margins and the costs, I think what we've shown in 2014 is that we had the setup, we had the ability and we had the drive to down size when needed, when the market was going down. We've done it quite successfully in Brazil. We are doing it now in Norway and once we have more indication on projects being awarded or not awarded, we will take the same approach in some of the locations. So it's difficult to tell you today what will be the savings. It depends on what the activity will be.

At the same time, we do not want to jeopardise our ability today to remain a Tier 1 contractor and be very competitive and continue to deliver on the large projects, which are going to come to this market.

Christyan Malek: Very clear, just – and just – you are taking a reactive approach to cost-management as opposed to, sort of, putting in tweaks or amendments?

Jean Cahuzac: We are not taking a reactive approach. Today we have a plan, which I mentioned in my script, that we are considering releasing some chartered vessels. I'm not obviously, for good reasons that you would understand, disclose the plan. We have a plan that ready to be implemented when we need to downsize the organisation, as soon as we have a better idea of what the activity is. So it's not reactive; we are proactive and ready to push the button when it's needed.

Christyan Malek: Very clear, thank you very much.

Operator: Thank you. Our next question comes from the line of Frederik Lunde of Carnegie. Please go ahead, your line is now open.

Frederik Lunde: Thanks, a couple of questions. First of all, in terms of capex for 2015, how much flexibility do you have beyond the new-builds and where do you see that number in – as opposed with this year? And secondly, are you comfortable that it gives you, on the balance sheet allowance for the oil price drop and a drop in revenue expected next year?

Jean Cahuzac: I will take the capex question and let Ricardo answer to the second question. So, regarding to the capex, as I mentioned before, we are going to complete this new build capex in Q1, '16. I mentioned before and can confirm that these projects are going very well. I'm not expecting cost-overruns and I believe that the transfers will be delivered on budget and – possibly ahead of schedule. We are in today's market – with the unknown of the market, obviously focusing on optimisation of capex and removing what I would call discretionary capex without taking risks on the efficiency of the vessel and the downtime and the outstanding performance that we have on downtime on the vessel today. But we have removed and continue to remove all discretionary capex, so we can limit the capex to a low level. I think we have indicated in the past that with our existing fleet – which could be downsized if we released more vessels – our operating capex is, on a yearly basis, around $200–250 million. That includes dry-docks and expenses doing dry-docks that we amortise. So that's the type of level; we can probably go slightly below these values, but that should give you a range.

Frederik Lunde: Is that something you would target or that is starting from '15 or '16?

Jean Cahuzac: Sorry?

Frederik Lunde: Is that number – the $200 through to $250 million – is that something you would target as soon as next year?

Jean Cahuzac: Ricardo, I'll let you comment on the numbers. But I mean, in terms of the approaches I described, which is to lower capex besides the capex which is already committed that we have to execute, capex which was committed to in the previous year with the new-build, I mean, I can tell you that we are already engaged in this process. But we have some commitment on the new-build that we are going to continue to execute in '15.

Ricardo Rosa: I think Jean's absolutely right. As part of our budgeting process we've been scrubbing our capital expenditure requirements for the next couple of years to the extent – and really challenging anything that's nice to have as opposed to a necessity. So I think it's fair to say that we're going to be able to minimise capital expenditures more in '16 than in '15, because of our high level of new-build commitments.

As far as goodwill is concerned, going back to the second question you had Frederik, we carry out our annual goodwill impairment test every year in the fourth quarter. It's timely, they're doing it at the moment because, as you point out, there are a number of potential indicators of impairment, both in terms of the price of oil and terms of clients' capex decisions. We're not in a position – we're in the process of running the numbers, which we do based on updated forecasts and reassessments of the market and we will be addressing that topic in our earnings call relating to the fourth quarter. Obviously, if there is any material adjustment that may arise - and I'm not saying that there will be – we will notify our investors, promptly.

Jean Cahuzac: We're just starting the process, so I mean, I wouldn't conclude anything from the comments.

Frederik Lunde: Thanks. One more question, if I may, just on the chartered-in vessels. It seems like one third of your fleet is actually chartered-in, and roughly 10% of – one third of those chartered again expire in '15, another third in '16 and last third in '17. Could you indicate the overall, sort of, charter costs you incur, say, this year? And also, if there are big differences in demand for the various classes of vessels or if you will just cut broadly in charters.

Jean Cahuzac: John, I'll let you answer.

John Evans: Frederik, you know, you quite rightly point out we have structured the business around having a blend of owned assets and chartered assets. We have a series of decisions to make around each individual vessel that we actually have and that's how we will do it and it's really around what we see coming into the market and what our needs will be in – to '16 and '17. I think the key point for us is we do have a good level of flexibility around what we choose to do with those vessels, but each one will be done on a case-by-case basis and it will be the decision made on each particular asset, in line with what we've got. But we do have the ability to materially change our leased asset based fleet in the period from 2016 onwards.

Jean Cahuzac: I think, as we said before – I know that John will confirm– it's more '16 onwards than '15.

John Evans: Correct.

Frederik Lunde: Thanks.

Operator: Thank you. Our next question comes from the line of Fiona McLean of Merrill Lynch. Please go ahead, your line is now open.

Fiona McLean: Thank you. Yes, it's Fiona at Merrill Lynch. Just want to go back to this share buy-back. Can you walk me through the thought process when you're looking at – making the choices between doing a share buy-back, buying back your convertible bond and also assigning the cash to dividends? And then the second question I had was around the upcoming EGM that you have. It looks like you're looking to cancel some of your treasury shares. From memory, I don't think you've done that historically, so could you just walk through why you think now is the right time to be doing that and whether that may cause you any problems in the future, given you do have a 2017 convert outstanding? Thank you.

Jean Cahuzac: Ricardo?

Ricardo Rosa: Yes, Fiona good afternoon. If you're taking each one of those elements in turn, the first point I want to make is that the share buy-back programme, mandated by the board to $200 billion, is independent of any repurchase of convertible bonds. So, if you like, the convertible bond repurchase is a compliment to the share buy-back programme and not a substitute. Why did we enter the market for convertible bonds? I mean, we have done so, as I mentioned on the script. We acquired $46 million at face-value in bonds and our logic in doing so was that it – we felt that it represented an attractive yield to maturity at the price that they were being marketed. It had the benefit of enabling us to manage the maturity profile, a little bit. I mean, we have a large repayment due in 2017 and, from today's perspective – you know, the road can be uncertain – future – over the coming two or three years. And, I guess, thirdly, it's also part of the – it's like an integrated programme of minimising diluted earnings per share. You – it's an area of interest to our shareholders. But that's the logic underlying the bond. I do not want to emphasise the bond repurchase. I do want to emphasise that the biggest – the opportunities for it, within the parameters we've established, are relatively limited. So I don't think you should expect to see a major repurchase of it in the coming months.

With regards to your question on the cancellation of treasury shares, we – as far as I'm concerned, I mean, shares held in treasury do not form part of the calculation of earnings per share and that's reflected in our financial – condensed financial statement. However, there have been some investors who have treated those as diluted, or dilutive, and it was in response to that there was a clear signal from the company that we're not planning to reissue them. We have requested our shareholders at the EGM to approve the cancellation of these treasury shares. We held off doing that because we wanted to see what – to see how the value of the 2013–2014 convertible bonds developed. But now that both have matured we feel comfortable cancelling the shares that we're holding today in treasury.

Fiona McLean: That's very clear. Just one final question: regarding the dividend aspects, you continue to run the business without a dividend policy in place at all. However, the majority of the analysts do forecast you to be paying a dividend. Is that a factor that the Board takes into account when they are looking at how to manage the cash movements in and out of the cash-flow? Thank you.

Ricardo Rosa: Yes, it's clearly a factor. But you're right in saying that we do not have a policy of paying a regular dividend. The dividend that we have paid has been an annual decision taken by the Board, in the light of their view of the market and the cash position and strength of the balance sheet of the company, and that approach has not changed. I can't comment at this stage what the final decision will be in 2015 – in early 2015, where decisions are taken by the Board with regard to any dividend pay-out.

Fiona McLean: Okay, I'll leave it at that. Thank you.

Operator: Thank you. Our next question comes from the line of Haakon Anderson of ABG. Please go ahead, your line is now open.

Haakon Anderson: Yes, just a couple of questions from me. Could I – you have been not too specific on '15 for the reasons you have provided, but should we interpret it that you are relatively comfortable about the 2015 consensus estimates? That's my first question. Second, on the AFGOM margins – you seem to be completing some of the lower-margin products in your portfolio and rolling over to the offshore phase on some new projects. Should you expect that margin run rate to get back more close to the '13 level of 16% in the near-term? Thanks.

Jean Cahuzac: Regarding – we are not commenting on consensus. I mean, the only thing I can say is that, you know, if there was something materially different from what market presents – perception would be – I mean, we have the obligation to speak, to obviously, comment about it and disclose things and we are not doing it. But I'm not commenting specifically on consensus, but you can be sure that if there was something I would be uncomfortable with we would talk about it.

Haakon Anderson: Okay, thanks. Do you expect to provide the guidance for 2015 later in the year?

Jean Cahuzac: What I thought, if you had asked me that question two months ago, I thought we would be more specific on '15. What has changed is the price of oil going from $100 to $80 which is raising questions, and we are in active discussion with our clients. There is some unknown on that on what's going to happen in terms of increase of work on existing jobs as well as some small jobs, one in the North Sea. So as soon as we know more we'll talk a bit more about it, but I think it's a bit premature. But as I said before, I mean, we have a firm base for '15 and I'm confident that we will continue to operate and perform on the project very well. So that's all I can say on '15.

Regarding the AFGOM margin, I mean, yes, a number of projects are going to come to exist – to operation in 2015, and that was included in my comments on the fact that we have good projects in our existing backlog. We've sound margins, but the overall margin in AFGOM we've also be influenced by what's going to happen on the Conventional and also our ability to find work for some of the vessels on the Conventional, which today have not found work like the Inagha or the Antares. So, again, I'm cautious.

Haakon Anderson: Okay. Thank you. If I can just finish with one last question, the amount of escalation on already existing projects – you mentioned that was low in the quarter. Is this all due to the, kind of, weaker cycle that we're seeing in the industry and hence we should expect that kind of run-rate in the near-term going forward? Or was there a specific issue that depressed this quarter and we should expect that to normalise somewhat over the coming quarters? Thanks.

Jean Cahuzac: Going towards Norway, we've seen a significant decrease of activity in Norway driven by flat oil but having also an impact on those operators. I think Norway will recover, but not maybe in the coming quarter or so. So I would be cautious on that but – you know, again, when you look at order intake on a quarterly basis – I mean, you can have ups and downs. But I think overall, in short-term, I would say that we are not going to be at peak order intake. I don't think we would assume that.

Haakon Anderson: Okay. Thank you –

Jean Cahuzac: And in terms of peak order intake on the small – on the existing projects, I mean, I think there will be a slowdown in the very short-term on order intake on existing projects in the North Sea in particular and in Norway.

Haakon Anderson: Okay, thanks.

Operator: Thank you. Our next question comes from the line of Dave Thomas of Credit Suisse. Please go ahead, your line is now open.

Dave Thomas: Yes, good afternoon gentlemen. I have a couple of questions please. Firstly, back to Andrew's first question really about 2016, and I understand reluctance to sort of comment on that, but could you perhaps provide a breakdown, even if it's just roughly, on $4 billion worth of backlog for you for 2016 and beyond – of that, what proportion approximately is for execution in 2016? That's the first question.

And then, secondly, on the US Gulf of Mexico, I'm intrigued by the comment you make on page 14 about the increased number of small- and medium-sized SURF projects in the Gulf likely to be awarded. But that doesn't seem to gel with the change in oil price over the last three months, so perhaps you could comment on what your clients are actually indicating for 2015? Thank you.

Jean Cahuzac: John, do you want to comment on the Gulf of Mexico? We're starting from a low level in Gulf of Mexico work – we're seeing some improvement, aren't we John?

John Evans: Yes. It's fair to say that there are a number of projects out there to bid at the moment, with both independents and international oil companies out in Gulf of Mexico which we're actively bidding, and some of them we're in detailed discussions with them at the moment. So we're seeing that trend continue to move ahead for us at the moment, and there are some projects that, as Jean says, will come to market in the next three months which – we're reasonably comfortable in speaking to our clients – will go ahead and get sanctioned.

Jean Cahuzac: And regarding '16, as we said before, I think it's really very premature to talk about '16.

Dave Thomas: No, I understand, but I think the question was just – can you actually just say of the 4 billion – could you just give a – is it 50/50, 75/25 – '16 and then '17 and beyond – that was really the question.

Ricardo Rosa: I think there is – you know, we don't usually give guidance for the content of backlog, other than to indicate what we expect to execute in the following year – in other words, 2015 or '14 and then beyond. But what I can say – obviously in 2016 – is that the proportion of that backlog will relate to the multi-year contracts of the PLSVs and some IRM work.

Jean Cahuzac: And some other work. I mean, we have also some contracts…

Ricardo Rosa: And also – yeah, projects that will extend into those years and that's as far as we've done.

Dave Thomas: Okay, I accept that. Thank you. Just to return to the first question then, could you just comment on whether you've seen any change in behaviour of your clients in the last three months, as oil price has gone down by 25%, particularly in this Gulf of Mexico question and the fact that you're saying you've had a number of conversations with people – have they actually continued those conversations, or any indication of pushback?

Jean Cahuzac: No. I think it's very fair to say that the approach of the clients varies a lot, depending upon who the client is, and some cases take a more aggressive position on the risk-sharing. Our position there hasn't changed – I mean, we have our reference and we don't move our reference and we accept projects only with the right risk profile, and I think what we are seeing is we are – we can be successful with our approach. We haven't seen specific problems in the Gulf of Mexico. I think overall the relationship with the clients in Gulf of Mexico is very good and there is no change of attitude, even now, with the price of oil going down. John?

John Evans: Yeah, as Jean said in his commentary earlier, you know, where we have seen discussions with our clients is in Asia, we saw Gendalo-Gehem where we were the lowest bidder – publicly declared lowest bidder – that project did not proceed. We know that, publicly, there are discussions about gas prices in India, which have an impact on some of the Indian projects, and it's been very clear in Norway that Statoil are slowing down any form of investments on that side of – not just Statoil do our projects, but some other people as well. So the Gulf of Mexico conversations are continuing and we haven't seen any material change in those conversations.

Dave Thomas: Okay. Thanks very much gentlemen.

Jean Cahuzac: I think we can take one more question before we close.

Operator: Thank you. Our last question comes from the line of Mushtag Galadagi of Citigroup. Please go ahead, your line is now open.

Mushtag Galadagi: Hi. Thanks for taking the question, gentlemen. Just very quickly, could you comment on your discussions with Petrobras about the next wave of projects – what sort of timeline this relates to and what, sort of – the size of opportunity we're talking about? And, just quickly on Life-of-Field work, I mean, there was quite a lot of noise on the majors cutting on operational costs; I mean, have the discussions changed on the Life-of-Field work? Thank you very much.

Jean Cahuzac: John, on the Life-of-Field and – we'll come back on Petrobras in a moment?

John Evans: At the moment, no, we're not seeing any fundamental changes on the Life-of-Field discussions we're doing with our clients. You know, you have to remember a lot of our Life-of-Field work is in reasonably highly-regulated places, like the UK, where the optionality as to what you choose to do with maintenance and statutory inspections and things isn't necessarily there for them. So the Life-of-Field activities continue to give us a certain workload. The challenge – we sometimes will see a speck in the future of it – sometimes that spins off into capex. We sometimes do some good discretionary capex that our clients decide, maybe, to do or not to do, based on what we've inspected and based on what they've seen.

Jean Cahuzac: I mean – regarding Petrobras, what I was referring to is the number of FPSOs, which are going to be installed on the sub-salt – on the pre-salt field, and the fact that – you may remember that we said a number of months ago that we wouldn't actually proceed with that project with the risk-profile which was in place at the time. We – there's a clear message from Petrobras that they want a company like Subsea 7 to participate in this growth of activity in Brazil, both of flexible pipe and rigid pipe, and also an acknowledgment that a more balanced risk profile contract is put in place. And that's what I was referring to and I think we're making progress, and I think we're on the right track and I see opportunities for Subsea 7 in Brazil in deep water. We're talking about post-'15. I mean, all these projects are not going to materialise in '15, so it's post-'15-'16.

Mushtag Galadagi: Okay, that's very clear. Thank you.

Jean Cahuzac: Well I think we can close now the earnings call. I would like to thank everybody for participating to this call and look forward to discussing at our next earning call. Thank you. Bye.