Subsea 7 S.A. Third Quarter 2013 Results
Conference call transcript – November 18, 2013

Speakers
- **Jean Cahuzac – Chief Executive Officer**
- **Ricardo Rosa – Chief Financial Officer**
- **John Evans – Chief Operating Officer**
- **Paul Gooden – Investor Relations Officer**

Paul Gooden – Investment Relations Officer, Subsea 7 SA

Thank you, and good afternoon. This is Paul Gooden, Investor Relations Officer at Subsea 7. Joining us today are Jean Cahuzac, our Chief Executive Officer; Ricardo Rosa, our Chief Financial Officer; and John Evans, our Chief Operating Officer. Today's results for the quarter which ended on September 30 2013, the press release can be found on our website, along with the presentation slides we'll be referring to in today's call.

Before we start the presentation, I'd remind you that certain statements made in the course of this conference call which expresses the Company's intentions, beliefs, and expectations, are forward-looking statements. Future results and trends could differ materially from those which are in such statements. Details of these can be found in the Company's filings, including the Company's annual reports.

May I also draw your attention to the more detailed disclosure and forward-looking statements that appear in today's press release.

The call will run for around an hour. And with that, I'll hand you over to Jean.

Jean Cahuzac – CEO Subsea 7 SA

Thank you Paul,

Good afternoon and welcome to everybody.

I would like to reflect briefly on the quarter and the market, then Ricardo will run through our financials and before we take your questions, I will make some observations on the outlook.

But first, a brief up-date on the Guara-Lula project.

- We have been experiencing difficult offshore weather conditions for the last three months during the winter season. These difficult conditions had an impact on the Buoys installation operations during the quarter.

- This is not a surprise as we had identified this challenge when we talked to you earlier this year. Our views have not changed since July; we still believe that the full-life project loss previously announced remains appropriate.

- When projects are challenging, working well together with your Client is even more important than when everything is going as per plan. Our teams in Brazil work very well with Petrobras operation and technical departments; my view is that we have aligned priorities with the common objective to mitigating further risks for both parties.

Coming back to the third quarter results, I am pleased with our results.

Q3 was a solid quarter as Guara-Lula remains a “one-off” project challenge.

- The EBITDA margin was strong at 23%.

- Activity levels were good in the quarter, reflected in the vessel utilisation of 86%.

- Results were also driven by strong project execution in all territories.

But our results are not limited to our performance on projects outside Guara-Lula. The Borealis, as you know, had a very good start post shipyard delivery last year. I am pleased to confirm that she continues to perform very well. She completed its main offshore work scope on CLOV offshore Angola and transferred to Mexico during the quarter; its operational performance and utilisation since joining the fleet continues to be in line with our expectations.

While the Group revenue was down 10% on the prior year period, in part due to the redeployment of vessels to Brazil for the Guara-Lula project. It is pleasing to report another $ 11.8 bn record backlog, driven by the award for three new build PLSVs for Brazil. Turning to slide 4, you can see the development of the backlog, which is up 45% versus a year ago.

Since quarter end we've announced the renewal of contracts for Seven Mar and Seven Condor (which completes the renewal of our 5 PLSVs), but also the long awaited TEN award offshore Ghana.

Turning now to the global market on slide 5 we have been now referring for three quarters to the postponement of some project awards to the Industry. This is continuing although this trend varies between geographical regions.

In NSC, the trend toward the EPIC model continues. There is a growing technology richness to the projects, due to both the harsh environments we're operating in and because technology is a way of lowering costs for our clients. This positions Subsea7 very well. There is a risk that some clients could reevaluate the timing of some projects in the same manner as they have been in other territories.

In West Africa, we've seen the long awaited TEN project in Ghana sanctioned and awarded to a consortium Subsea 7 / Technip; we are also seeing a number of projects awards being delayed for various reasons. I would also mention a potential temporary slowdown in the shallow water conventional market in Nigeria due to local administration challenges.

In the GoM we're seeing improved tendering activity although from a low base.

In Brazil, demand for PLSVs remains strong, with new-build PLSVs awarded to the market and existing PLSV contracts renewed on improved terms. Tendering activity continues in the pre-salt fields, although as we've said before we won't participate in the tenders until we can agree on an acceptable risk profile business model with our Client.

Finally, in APME, activity levels are improving but the timing of awards remains uncertain. An example is the Gendalo Gehem project in Indonesia which is now unlikely to be awarded to the Market this year. In Australia there is a pause in tendering due to cost challenges in this country.

With that I'll pass you to Ricardo who will talk you through the numbers.

Ricardo Rosa – CFO Subsea 7 SA

Thank you Jean and good afternoon. As Jean has stated, the results for the third quarter 2013 reflect the impact of robust project execution on profitability.

I will now discuss the consolidated income statement and the territories' operating results for the third quarter, and then comment on the nine-month cash-flow and period-end balance sheet. I will conclude with an update to our financial guidance for 2013.

As shown on slide 6, third quarter revenue was $1.6bn, down 10% on the prior year period. This was due in part to lower vessel utilization at 86% compared to a record 88% in third quarter 2012 and in part due to project phasing in West Africa and Asia. Third quarter net operating income totalled $269m with the net operating margin rising to 17.2% compared to 13.1% in the same prior year period, mainly reflecting continued margin improvement in the North Sea and higher profitability in Asia.

After deducting net finance costs of $12m and net foreign exchange losses of $38m income before tax was $219m, down $28m or 11% on the prior year period which benefitted from a $23m gain on sale of NKT Flexibles.

The $60m tax charge for the quarter is equivalent to an effective tax rate of 27%, and is reported net of the benefit of certain discrete items. Net income for the quarter was $160m, resulting in diluted earnings per share of 42 cents.

I will now turn to slide 7 and the Territories' operational performance in Q3.

North Sea and Canada generated revenue of $670m, down 21.0% on the prior year period, while net operating income amounted to $111m, an increase of $6 million or 5.7%. The net operating margin of 16.6% for the third quarter compares favourably to the margin of 12.4% for the same prior year period. Vessel utilisation in the North Sea was robust at 92% for the quarter but lower than the 99% achieved in the third quarter of 2012. This was due to the cancellation of the Fram project early in the year. In addition, no project revenue was generated in the Territory by the Seven Oceans as it was deployed on the Guara-Lula project during the quarter. Revenue declined also as a result of project phasing but the improvement in net operating margin reflected strong project execution and a reduced proportion of lower margin contracts.

Africa and GOM delivered revenue of $583m for the quarter, up 15% compared to the prior year period, while net operating income, at $94m, gave rise to a net operating margin of 16.0%, down 8.7 percentage points on the prior year quarter's margin of 24.7%. Significant progress was made on the CLOV project, offshore Angola, in the quarter. As expected, the shift in activity in favour of this low margin project adversely impacted the net operating margin of the Territory as a whole. Nevertheless we are satisfied with the project's execution and expect to complete it early in 2014.

Asia Pacific & Middle East delivered revenue of $73m and net operating income of $30m on significantly higher activity than in the prior year period the construction vessel, Sapura 3000, owned by the SapuraAcergy joint venture, successfully completed the offshore scope of the Gumusut project offshore Malaysia in the quarter. In Australia, progress was made on the preparations for the offshore scope of the Gorgon Heavy Lift and Tie-Ins project which will start in Q4.

Brazil returned to profitability in the quarter generating $10m in net operating income on revenue totalling $233m. Some further progress was made in the offshore installation of the submerged buoys for the Guara-Lula project despite the prevailing bad weather and no correction to the estimated full-life loss on the project was considered necessary. However the Territory's results reflect the fact that two pipe-laying vessels, the Seven Condor and Kommandor 3000 were in planned dry dock in the quarter prior to mobilising for their new contracts with Petrobras.

Lastly, the corporate segment generated net operating income of $24m in the quarter compared to a loss of $1m in the same period of 2012. The segment benefited from lower administrative expenses and an improved contribution from the joint venture, Seaway Heavy Lifting which continued to be active in the North Sea in wind-farm installation.

Turning to slide 8, I'll comment on some specific line items.

Administrative expenses amounted to $74m; $24m lower than the prior year period due to the absence of integration costs and continued focus on expense reduction. The contribution from associates and JVs rose to $49m from $12m in third quarter 2012, due to higher activity levels at both SapuraAcergy and Seaway Heavy Lifting. Net operating income of $269m, which is stated after deducting depreciation of $88m, reflects a 400 basis point improvement in overall margin, in part attributable to the contribution from the two joint ventures. Net finance costs of $12m have increased by $6m compared to the prior year period as a result of both the issuance of the $700m convertible bond in the fourth quarter 2012 and lower levels of capitalized interest expense due to the phasing of our vessel construction projects.

The $38m loss within Other Gains and Losses reflects realised and unrealised foreign exchange losses arising from the weakening of the US dollar compared to the Group's major trading currencies. Our policy on foreign exchange management is to match currency inflows and outflows where possible and hedge any residual exposure. We consider this policy to be appropriate economically even if it results in some accounting volatility in the short-term.

The $60m tax charge for the quarter represented an effective tax rate of 27% and benefited from certain discrete items which were mainly downward adjustments to prior year liabilities. Excluding these discrete items, the underlying effective tax rate was 43%, higher than last year due to the adverse impact of the Guara-Lula full-life loss provision.

Turning to slide 9,

Cash generated from operations in the first nine months totalled $677m. This included a $284m cash inflow from a decrease in net operating assets largely as a consequence of improved client receipts mainly in the first quarter. Net working capital, defined as net current assets, excluding cash, accrued dividends and the current portion of borrowings, fell slightly in the quarter, continuing its improving trend since the start of the year.

Net cash used in investing activities amounted to $511m. The key capital investments during the nine months included the acquisition of the construction vessel, SIMAR Esperanca, the continued construction of the PLSV, Seven Waves and the diving vessel, Seven Kestrel as well as initial payments for the HCV and three new build PLSV's following Petrobras's recent award of three five-year day-rate contracts..

Net cash used in financing activities totalled $491m, the key items being the repayment of the $158m Seven Havila loan, a $115m loan to our asset-owning joint venture with Eidesvik to finance the construction of the Seven Viking, and the payment in the third quarter of a dividend equivalent to $0.60 per share.

We finished the quarter with a cash and cash equivalent balance of $953m a reduction of $335m since the start of the year reflecting the needs of our capital investment program, the ongoing rationalization of our capital structure and our continued commitment to returning cash to shareholders. Borrowings at the quarter end amounted to $1.4bn but have since been reduced by $500m following the maturing of the $500m convertible bond in October, of which $337m was redeemed for cash and $163m was converted to shares at the option of the bond-holders.

I will now comment on the financial guidance for 2013 provided on slide 10.

We expect to deliver full year adjusted EBITDA in line with prevailing consensus expectations.
As we approach the end of 2014 we have tightened the range of guidance for certain expense lines in the income statement.
Administrative expenses are now forecast to fall within the range of $310-320 million down from our previous guidance of $330 to 350 million reflecting both our focus on cost reduction and the release of $21m in certain dispute-related provisions recognized at the time of the merger.

Income from associates and JVs is expected to range between $110m and$120m, up $25m from our previous guidance to reflect increased activity levels achieved by Seaway Heavy Lifting and SapuraAcergy.
Depreciation is now forecast to range between $370m and $390m due to changes in phasing of capital expenditures.

We are projecting the effective tax rate for the full year to range between 35% and 37%, net of the benefit of certain discrete items. The underlying effective tax rate for the full year, which excludes these discrete items, has been revised downward from previous guidance to reflect a relative increase in profitability in lower tax rate jurisdictions and is now expected to range between 47% and 49%.

Lastly, we've slightly tightened the expected range for capital expenditures to between $750m and $800m.

I'll now pass you back to Jean to comment further on the outlook.

Jean Cahuzac – CEO Subsea 7 SA

Thank you Ricardo.

Let's turn to Slide 11. Although it is too early to be specific on 2014, I would like now to provide my initial thoughts.

We will start next year in a strong position with a high backlog and except for Guara-Lula; we expect to continue to perform on all our projects.

Looking at each Territory:

The outlook for NSC is good, some of our Clients have been mentioning that projects costs escalation could lead them to review some of their priorities – this is something that needs to be monitored. I would also caution that the Seven Oceans will be mobilising to Africa after Guara-Lula in Brazil and won't be returning to the North Sea in 2014; the Skandi Acergy which has been active in the North Sea in 2013 will also be mobilising to Asia as planned for Gorgon and will not return to NSC in 2014.

In AFGOM, in 2014 we plan to continue to execute a number of projects OFON, BP GES, Erha North and Lianzi. The timing of future awards of new large projects remains uncertain – this is not new, it has been the case since the beginning of 2013. I also mentioned earlier the possibility of a temporary slowdown in the shallow water conventional market in Nigeria; this could mean somewhat less variation orders on existing conventional work – but it is too early to conclude.

In APME, we expect tendering activity to improve in H2 from a low base for projects to be executed beyond 2014.

Finally in Brazil, Guara Lula is expected to complete by the end of 2014, in line with the revised plan. With the exception of large pre-salt EPIC contracts, we will continue to tender to the IOCs and Petrobras, and we are on track to turn-around our financial results in H2 2014.

We'll come back to you at the full year results in March with further colour on the 2014 outlook.

On slide 12 we set out the new build vessels on order or under construction.

The 2 most recent new builds to join the fleet – the Seven Borealis and Seven Viking – underline our success in delivering on time, on budget, and without teething issues.

The sea trials programme for Seven Waves has been successfully completed on schedule and the installation and commissioning of the lay construction equipment is now underway. The vessel will become operational in H2 next year. Work on our three new build PLSVs has commenced in Rotterdam by the same contractors we used for the Seven Waves. These new-build PLSVs are all backed by 5 year contracts with Petrobras, and our experience with the Seven Waves gives us confidence the vessels will be delivered on time and on budget.

Our new DSV, the Seven Kestrel, is aimed at the North Sea diving market where we see continued strong demand. The new build project is on schedule, all major contracts are in place, dive system is already under construction with ship steel cutting planned to commence in the ship yard Q1 2014.

And finally our new HCV is aimed at the market for ever heavier subsea lifting capability. As the trend toward subsea processing and development of deeper fields becomes a reality, so we think her high capacity crane will position Subsea7 well for future work. The project is on schedule with all major contracts in place.

In summary, turning to slide 13

It was a solid quarter, driven by strong project execution.

On Guara Lula, we still expect the project to complete at the end of Q32014, and we believe that the full life project loss previously announced remains appropriate.

We're on track to deliver 2013 Adjusted EBITDA consensus expectations and our backlog is in good shape.

We remain positive on the medium and long term market prospects and see growth opportunities in all major markets as our Industry fundamentals have not changed. Although we see new competition coming to our market, our Engineering capabilities, technologies and large fleet position us very well for the future.

And now let's turn to your questions

Operator

(Operator Instructions) Jaideep Pandya, Berenberg

Jaideep Pandya – Berenberg

Thank you. A few questions. Firstly, on West Africa. Could you give us a little bit more colour if you look at '15, '16 activities, considering the competitive landscape? Do you have quite a lot of spare capacity to win business compared to the strongest competitor that you have in that region? The second question is more on North Sea. Could you give us a little bit more colour on the day-rate dynamics in that region, given that the utilisation and demand have been extremely strong, as per your comments, as well? And then the third question is really on the three new vessels. Could you give us some colour, what is the combined cost of the three new vessels that you are contracting? Thank you.

Jean Cahuzac – CEO Subsea 7 SA

Yes, thanks for your question. Starting with your last question, we have announced previously that the capex for the newbuild vessel was in the range of $1.2 billion for the four vessels, including the Seven Waves. And that is associated with a five-year contract from Petrobras.

Regarding West Africa, what is interesting about West Africa is we're talking not only about the traditional area where we've seen a lot of activity from the past, but new frontiers. So we're talking now about East Africa with new projects coming for the gas development of Anadarko and Eni in the years to come.

The way I look at the market and the competition in West Africa for Subsea 7, I think the first point to look at is the capability in engineering and project management, because we see larger and larger projects in this part of the world. Local content is also very important, as you know, in this part of the world. So in terms of the competition, we see the traditional competitors, Saipem, Technip, but there is a limited number of companies that can actually enter this market and catch up on our strengths, in particular on local content.

Regarding the utilisation and the rates in the North Sea, we see today a strong market and we have phased out our projects with low margins, projects which were signed in 2009, 2010, beginning of 2011. As shown in our Q3 results, the profitability of our project is pretty good. I mentioned that we have heard some comments from operators that they could consider looking at the sequence of some of the projects due to the increasing cost of the projects in the North Sea. That is something that we are monitoring, but we have not seen an immediate effect from this comment. We haven't seen any specific examples yet.

Jaideep Pandya – Berenberg

If I can just follow up quickly on West Africa, it seems that Technip is going to be very busy in 2015 and 2016, with very little spare capacity. So what I was alluding to was that do you think you are in a pole position to win whatever business has come through because you have spare capacity in West Africa?

And then just if you can give us any color on contingency release for CLOV, given that this project is going so well.

Jean Cahuzac – CEO Subsea 7 SA

Talking about West Africa, we have extra capacity with our vessels on the high end, for instance with the Borealis, in the years to come. But there is still competition. And I wouldn't conclude that it's a blank cheque.

When we look at the large projects that are also going to be awarded to the industry I wouldn't limit the list to West Africa. For instance, an example is again Gendalo project in Indonesia, which should be awarded to the industry by Chevron probably late this year, maybe beginning of next year. So the market remains a global market and we are well positioned for that.

Jaideep Pandya – Berenberg

Any word on CLOV on contingency?

Jean Cahuzac – CEO Subsea 7 SA

Well CLOV is a project which is executed very well. It's a project which will be completed at the beginning of 2014. I think that's all I can say. It's a well-executed project.

Phillip Lindsay - HSBC

Two questions from me. The first one's on profitability. So just looking at the last two quarters, you've been well ahead of what the Street was looking for. So I just want to explore the moving parts and whether many factors that you deemed to be one off, with respect to particular contracts in terms of the way they've been closed out. And really an idea of what to expect in 2014, where, I think, in theory, you should see a better quality book of business flowing through the P&L. So that's the first question.

Jean Cahuzac – CEO Subsea 7 SA

Coming back about the profitability, I think what's key for profitability is first project execution. And besides Guara-Lula, I'm very pleased with the way our teams are executing projects around the world. And that translates in the profitability.

I think the second point is the timing of the project awards. I think I mentioned before that in 2013, in Q3, most, if not all, of the low-margin projects which were signed in a different business environment have been executed, and are behind us.

So what remains today in the backlog is good-quality backlog, except Guara-Lula. And, although the market indication remains good, the low-margin projects in the North Sea are behind us. So what you see in Q3 is not going to be very different from Q4.

Regarding Africa, I would look at Africa in two ways. First, a reminder that the CLOV project is a low-margin project. It's a project which was signed in a different business environment. And, although the execution is good, it remains a low-margin project. The other projects that we signed later on in Africa are with better margins.

What will also influence the results in Africa is a timing of additional work and variation orders on the conventional work. It's too early to comment or be very specific on that for 2014 but it's something that we are always watching carefully because it translates in immediate results. So later in the year, beginning of 2014, we have a better idea what's going to happen with that.

Phillip Lindsay - HSBC

Okay. But just at this point, would you be disappointed if the underlying margin for the Group, so stripping out Guara-Lula, would you be disappointed if that was down next year?

Jean Cahuzac – CEO Subsea 7 SA

I'm not commenting on the 2014. I think I already made comment on that. The last point I would like to mention is that when you look at margins, you have to look at it over a certain period. To look at results on a quarterly basis can also be misleading because of the timing of the project. When you are in operation, when you release contingency the margins may change. So it's a complex business.

Overall, again I'm pleased with project execution. I'm pleased with the backlog. And I'm pleased with what we can generate.

Phillip Lindsay - HSBC

All right. That's good. And then secondly I just want to talk about Guara-Lula, because I think you said last time that you're expecting the project to finish within Q3. You're now saying end of Q3 next year. So maybe a slight slippage there, but captured within the $300 million.

So I just really want to get a sense for the detail around what stage we're at in terms of the critical parts of the installation. So, for example, do we have the first buoy installed yet?

Jean Cahuzac – Subsea 7 SA - CEO

Coming back to my comment about next year, the main operation should be completed in Q3 2014. There will be still some commissioning and some operations to be done. And again when we look at the project, as you can imagine, we are monitoring this project very, very, carefully with all details. I see no reason to change our view on the losses that we announced in July, 2013.

Regarding the status of the project, the first buoy has been submerged to 235 meters, which is its final position, and it's connected to the bottom. We are presently installing the permanent tethers.

One comment of caution, for Petrobas to be able to produce, the risers need to be installed and they also have to connect the buoy to the FPSO. So it's a very complex operation, difficult to explain in detail. I'm not going to try that.

So, basically, as I said before, main operations should be completed Q3, 2014, with a few remaining operations up to the end of the year. But that's where we are.

Phillip Lindsay - HSBC

Okay. And just one last one to finish off on that, in terms of the commercial discussions, in terms of how they're progressing with Petrobas.

Jean Cahuzac – Subsea 7 SA - CEO

As I said before, I think we're working very well with Petrobas operation and technical departments to mitigate the cost.

There are some discussions ongoing with Petrobas, and that's to take into account when we evaluate the financial situation at the end of the project. That's all I can say at this stage. We are working well with our client to complete this project within the schedule that I just outlined.

Henry Tarr - Goldman Sachs

Just a couple of questions from me. Firstly, I guess the PLSVs, the renegotiations will start to kick in, as you say, from now through to second half of 2014. They look as though they could be quite significant from a financial standpoint. Are you able to quantify that for us, 2014 versus 2013?

And then secondly, just on the joint ventures again, I guess you've had a good quarter in 3Q. Is this just a very good year for the joint ventures? Or can we be at this kind of level looking into 2014 as well?

Jean Cahuzac – Subsea 7 SA - CEO

Regarding the PLSVs, we announced the value of the contracts of the PLSVs and, as you can see, that's with good rates. I wouldn't comment further because we are not providing information on a project-by-project basis. But I'm pleased with the contracts which we have signed. I think it's good for us. It's good for Petrobas.

Regarding the joint ventures, the results of the joint ventures were very good in Q3. I would caution you not to look at this result on a quarterly basis. There were two factors on the result of Q3. One was the status of execution of the Gumusut project for the SapuraAcergy joint venture. This project will be completed in 2013 and, therefore, won't be there in 2014.

And then SHL, it's a seasonal operation; installation for renewables and for oil and gas. The results in Q4 will be lower than Q3 because one of the two vessels will be in dry dock. And also because of the seasonal effect of being in the winter period where traditionally we have less operations than during the summer.

So I'm confident that the joint ventures will continue in the years to come to deliver good results, but I would not extrapolate the Q3 result to the whole of 2014.

Henry Tarr - Goldman Sachs

Okay. Just another question then on the North Sea. Why do you think the EPIC model is gaining traction there? Is it likely to have an impact on margins conceptually? I guess we have a higher procurement element in there.

And then, with the market looking quite good, I guess you're actually reducing capacity next year in the region when the opportunities look quite good. So if you could comment on that as well, please, that would be great.

Jean Cahuzac – Subsea 7 SA - CEO

First there are more and more EPIC projects in the North Sea. It doesn't mean that all the projects are done in EPIC. In fact the majority of the projects are still done with lump sum or varied contracts with our framework agreements. So EPIC represents a growing part, but it's not the whole market. I think the reason why the operators are moving to EPIC is that they found that it is a more cost-effective way for them to develop the field.

In a market which has its constraints from supply chain to availability of vessel, etc., the fact that Subsea 7 can provide this EPIC project with the flexibility of assigning more resources when needed, but also changing the schedule of the vessel because of the size of our fleet, etc., I think is seen as a plus by our clients.

Regarding the margin reduction, I think your comment is quite right. When you look at the EPIC projects, the margins on what is procurement and somewhat fabrication are lower than the margins that we have on the project management and the operational side. The risk is not the same either. So that's something which needs to be taken into account for the estimate. It would be wrong to take just the expected revenue and apply the highest margin to the whole revenue. It doesn't work like that.

But why are EPIC projects very good for Subsea 7 is because we have, for instance, differentiators. There are not many companies which can actually provide these type of services. And a number of new competitors definitely are not in the same position as we are to provide these EPIC projects.

Regarding the fact that we are moving assets outside of the North Sea when the market is still good, first the Ocean on Guara-Lula is not something that I would do if I could avoid. We have to complete the Guara-Lula project and the Seven Oceans is the key. So it's one of the consequences of the Guara-Lula project. And it's something we've been talking about for a while.

The Skandi Acergy is going to Australia to execute the Gorgon project with Chevron, which is a good project.

Asad Farid - Berenberg

I have three quick questions. First is regarding the fleet maintenance program in the fourth quarter. You've talked about this one vessel which will be in dry dock in this quarter. Can you give some color around your entire fleet maintenance program during the quarter?

My second question is regarding West Africa. You have talked a bit about it. I just would like to know -- just talking about the Gendalo Gehem project in East Asia - can you talk about similar sized projects in the West African region which you're currently looking at?

And my last question is on the Guara-Lula. Just wanted to ask you, considering it's a complicated project, if we can divide into the three stages; that is the installation of the buoys, installation of the rigid risers and the installation of the flexible risers. If you divide it into these three parts when do you think these three stages will be executed over 2014? Thank you.

Jean Cahuzac – Subsea 7 SA - CEO

Thank you. I'm going to answer to your two last questions and then I will let John comment on the fleet.

Regarding Guara-Lula, the buoy and the riser installations are, in fact, embedded operations. You have to do both to be able to look at the rest of the work. So the sequence of all these operations is very complex, but they go together. And the risers are installed by the Seven Ocean. That's why the Seven Ocean is staying a bit longer in Brazil.

The installation of a flexible riser from the buoy to the FPSO, etc., is full responsibility of Petrobras. So it's something which is not part of our scope of work and we have no accountability for that.

The Gehem Gendalo project, I would say Chevron are reviewing the timing of award to the industry of this project, and I personally believe now that this project could be awarded to the industry rather early 2014 than now. And my understanding is that Chevron are solving some pending questions regarding the equipment. So there are some delays in the project award. As far as we understand the project is still going ahead.

West Africa, there are some further delays in the award of Kaombo, which should be awarded probably early 2014, that's my understanding.

Regarding the other projects, the project in East Africa and in other countries depend on a number of factors. The one I could mention is to talk about well, not West Africa but now the delays in Egypt, which the timing of overall project depends on the political situation there. So there is an unknown on exact timing of a project award in that part of the world, without any doubt.

So there is an unknown on exact timing of project awards in that part of the world without any doubt.

And now, John, do you want to comment on SHL and the other maintenance of the fleet that we plan in Q4?

John Evans - Subsea 7 SA – COO

Yes, thank you very much, Jean. So Seaway Heavy Lifting has the Stanislav Yudin, one of their two heavy lift vessels, is going in to dock, as we speak, in Holland and will not be fee earning for us during this quarter. That is, she's reached her 25 years' life and so there is a work scope to be done on her.

In terms of the main Subsea 7 fleet, we will see the Rockwater 2 go into dock towards the back end of this quarter, and we will also expect the Rockwater 1 to go into dock either at the back end of this quarter or the start of the next quarter, depending on the work scope in the North Sea and how that plays out towards the end of this quarter.

Asad Farid - Berenberg

Thank you.

Jean Cahuzac – Subsea 7 SA - CEO

If I may add a comment, I think when I look at all the moving parts in Q4, probably from my perspective one way to look at it is in the comment that I made before. We expect to meet consensus EBITDA the end of the year.

Fiona McLean - Merrill Lynch

I have two questions. Firstly following on from the previous one, could you give us an idea of how much dry docking you expect to be carrying out in 2014 versus this year? So I guess that's for John.

And then the second question, looking at your backlog it's just shy of $12 billion today. Can you maybe give us a flavor of how much higher you think that backlog can go for you in terms of the amount of capacity you have as a business to be able to cope with even more volume than that $12 billion? Thank you.

Jean Cahuzac – Subsea 7 SA - CEO

First on the backlog, difficult to answer your question. When you talk about $1 billion, $2 billion projects, the fact that you win them or lose them or that they are delayed can change the backlog quite significantly on a quarterly basis.

But regarding capacity and to actually increase the backlog, the first point I want to mention is that when we look at the way we answer to tenders on these large projects, the first part we're asking ourselves is, do we have the right resources in terms of engineering and project management to manage the risk?

And today we have the right level of engineering and project management to basically commit to additional work. But we will not go above a certain limit if we believe that the risk management cannot be properly handled. I think it's absolutely key in what we do.

But if the decision of the client was to award one or several of these large projects, we would be able to execute them in a satisfactory manner.

Regarding the vessels, we have with the Borealis, with the Seven Seas, with the Ocean, the right vessel to execute the projects.

When we look at some of these large projects, decide to go on consortium with some of our competitors, and that allows us to continue to increase the level of activity when needed.

Recent examples TEN, with Technip; Campos that we are bidding with Saipem, which will be awarded to the industry later, or a bit later; again Gendalo Gehem, where we are going with a competent local partner pipe-laying company to execute the project if we were awarded this contract.

So we have different means to answer to the needs of the client and then see increase of activity.

Regarding the fleet in 2014, maybe a bit early but, John, can you comment?

John Evans - Subsea 7 SA – COO

Yes, I think, Fiona, with a fleet around 40 vessels, dry docking is a part of our lives in running our business. So I don't see any material change between this year and next year in terms of the run rate for the dockings overall.

Kristian Diesen - Pareto Securities

Just a question on the tendering activity, and, as you mentioned, you've been talking about delays for the past few quarters, and I guess that's also been the trend for the past few years. But has it become incrementally worse during the course of the year? Or how do you see that over the past few months and going forward?

Jean Cahuzac – Subsea 7 SA - CEO

It hasn't changed for the last few months. But I'm not sure I would concur 100% with your comment that it's been the case for the last few years. We've seen some uncertainty in terms of project awards due to some local political or administration challenges in countries like in West Africa.

What we started to talk about in the first half of 2013 that we are seeing a number of projects being postponed by the IOC for other reasons, which could be the constraints of the supply chain, which could be some concern that they had on the cost escalation of the project, with the price of oil between $90 and $110, which actually led them to review the technical solution that they were considering for the projects, to work with the industry and with Subsea 7, in some cases, to try to identify the most cost-effective solutions through technology and other means.

So we've seen more projects being delayed since the beginning of 2013 that we had seen in late 2012, for instance.

And the reasons are slightly different than they used to be, while, obviously, the unknown of political situation in West Africa is still there.

Kristian Diesen - Pareto Securities

So is it status quo as you see it today versus six months ago?

Jean Cahuzac – Subsea 7 SA - CEO

Yes. The only thing which has changed, but we have not seen concrete evidence of what was said, is some operators in the North Sea, Statoil in particular, as you know, have been mentioning that they could review the schedule of some of their projects, as the project cost is escalating.

But too early to say, but it's something that we need to watch because we have now similar comments in the North Sea.

Kristian Diesen - Pareto Securities

And just on Guara-Lula, when you report Q4 in March, would you say that you will have a fairly high level of confidence with regards to the final costs, so that you can provide some comfort on that by March? Or do you have to wait through, basically, towards the end of the year to get that, that sort of comfort?

Jean Cahuzac – Subsea 7 SA – CEO

Well, I have a good level of confidence on the numbers that we announced in July. As you know, we would have obligations to make known to the market if I thought that these numbers needed to be changed.

But any project is not finished until the operation side is complete, and it's true for every project, and it's particularly true for projects like Guara-Lula, which is a challenging project. So we will have to wait to be 100% sure until we complete the main parts of the operation, which are more in Q3, 2014. I see no reason today to change my views compared with what we said in July, 2013.

Erik Tonne – SBI Markets

Just on Guara-Lula again, sorry to keep on hampering on that, but just a simple question. There have been a lot of operations happening since we last spoke on the previous quarter. Are you more or are you less confident now that you will be within the previously announced cost overrun?

Jean Cahuzac – Subsea 7 SA – CEO

I'm at the same level of confidence.

Erik Tonne – SBI Markets

Exactly the same, taking into account what you've done over the last three months?

Jean Cahuzac – Subsea 7 SA – CEO

I still believe that the losses are in line with what we announced in July.

Erik Tonne – SBI Markets

Okay. And on the last two buoys, are they also in place in Brazil and have been towed offshore so far?

Jean Cahuzac – Subsea 7 SA - CEO

No. All the equipment in Brazil, the problems with importation that we mentioned in the past, the problems of supply chain, are behind us. All the main equipments are in Brazil.

But we are towing the buoys to offshore only when we are ready to do the installation and, basically, ballasting them to deep water. So they are on standby in sheltered water.

Erik Tonne – SBI Markets

Okay, thank you. And then on Kaombo, did you actually say that you expected to be awarded early 2014? Did I hear that right?

Jean Cahuzac – Subsea 7 SA - CEO

No, no, I said that I was expecting Total to award the project to the market. I'm not speculating at all on who the winner will be.

As you know, the consortium Subsea 7/Saipem is in competition with Technip/Heerema and I wouldn't speculate on who is going to win this job. And by no means that I consider that Subsea 7 has won this contract; we will see.

And I think that the contract could be awarded in the first quarter of 2014, from what we hear from Total. The future will tell.

But again, it's a market award. I'm not saying that Subsea 7 is considering that this contract is won or lost. We will wait.

Erik Tonne – SBI Markets

Let's hope you win. Okay, thank you.

Geoffroy Stern - Kepler Cheuvreux

Just two questions. Again, on Guara-Lula, just to follow up, so you can confirm that you still expect the critical milestone, i.e., the installation of the four buoys, to be achieved by the end of the year? That's the first question.

And so what kind of sales contribution do you see from Guara-Lula in 2013 and 2014?

And final one, on working cap. We've seen over the past nine months a significant decline in working capital. If you could help us to assess the trend for Q4, that would be helpful. Thanks.

Jean Cahuzac – Subsea 7 SA - CEO

Regarding the schedule of Guara-Lula, what we had said previously was that we thought that the buoy would be installed at the end of the year, or early 2014, we are reviewing the schedule with Petrobras. And it can be a moving target, by a couple of months, depending upon when do we install the riser on the existing buoy or do we install the buoy first or the riser, etc.

But all that is part of our overall assumptions on the losses that we announced in July, 2013.

Regarding the revenue of Guara-Lula next year, it will be probably in the range of $200 million next year. The same way as I believe that the losses that we've taken into account are sufficient to reflect what will happen at the end of the contract, I would not model a potential upside on the profitability of Guara-Lula next year. I think it would be unreasonable.

Geoffroy Stern - Kepler Cheuvreux

And just a follow up on this, you said $200 million in 2014 from Guara-Lula, and in 2013 it amounted to?

Ricardo Rosa – CFO Subsea 7 SA

As we've indicated in earlier guidance, Geoffroy, we started, we closed last year with around $350 million, and that was with the procurement and engineering phases largely completed. So what we're looking at this year is in the order of about $450 million to $550 million, depending on how the progress goes, through to the end of the year.

We're still looking at a project where the total revenue is estimated at around $1 billion.

Jean Cahuzac – Subsea 7 SA - CEO

Slightly north of $1 billion.

Ricardo Rosa – CFO Subsea 7 SA

Yes.

Jean Cahuzac – Subsea 7 SA - CEO

And the question on working capital, Ricardo?

Ricardo Rosa – CFO Subsea 7 SA

Yes, I didn't hear that question on the working capital?

Geoffroy Stern - Kepler Cheuvreux

Yes, working cap for Q4.

Ricardo Rosa – CFO Subsea 7 SA

At this stage, based on what we can see on the collections, we're not expecting any significant increase. We are continuing to monitor our receivables closely, chasing them actively, and we would expect something that's stable, or slightly down.

Jean Cahuzac – Subsea 7 SA - CEO

It's a big focus of ours to have our organizational management of projects focusing on receivables and the importance of cash obviously. And I think we're making progress in raising the awareness of line management in the Company of the importance of cash management. I think that's something that is on the top priority.

Alex Brooks - Canaccord Genuity

I've got two questions. The first one is on margin trends in AFGOM. This quarter was a relatively weak margin and, in fact, you've seen pretty much continuous margin pressure in that division since 2010. And I guess the question is whether that trend is flat lining or especially with the new contract awards you've got, whether that actually starts to look a bit better?

Jean Cahuzac – Subsea 7 SA - CEO

No, I think it’s the first, I'm trying to remember the margin in 2010, but I would say that I think we've seen pretty good margins in AFGOM generally speaking, and not in a downward trend.

What affects the margin in AFGOM in this year, in the second part of the year, is the fact that CLOV is a low-margin project, as we've been mentioning for a while. Not because of execution, but because of the timing of this contract in nature.

The projects that we will execute next year are better margin, if you take all four, BP GES and Ehra North, but margins are also affected by utilisation of on shore facilities and vessel recoveries and everything else. So it's a bit of a complex system.

But our margins in Africa, the projects that we are bidding are with good margins.

One point to remember is on these very large projects you can have up to 40%, 50% of procurement and some fabrication. The margin on these 40%, 50% is lower than project execution and engineering. So that somewhat tempers the big margins in Africa. But it's not because it's Africa; it's because of the size of these big projects.

Alex Brooks - Canaccord Genuity

Okay, thank you. And then the second question, it's coming back on a number of themes that have come up already, which is customers, such as Statoil, clearly are asking, how do we justify these projects and what can we do about the cost levels?

And I guess the question for you is, what do you present to customers to persuade them of the merits of maintaining a decent margin for you?

Jean Cahuzac – Subsea 7 SA - CEO

I'm not really advocating to the customer by trying to sell them a project, saying you need to give us a decent margin. I would love to be able to do that, but I don't think it would necessarily work.

I think what is important is to play with our differentiators and how can we have a more cost-effective solution through technology, through flexibility of the fleet, through a better risk-sharing balance between the operator and ourselves so that our project in the end costs less.

But when you look at the cost of the project for the operators on the Subsea side, we obviously have our role to play to help them to be cost effective, but what happens on the FPSO, what happens on the equipment etc., and on the drilling also played a key role.

So I think it's working in partnership with the clients and on the more difficult projects I think we have way of differentiators, as I mentioned before. We could see more pressure on margin if the projects were to be delayed in a big way in the North Sea. It's not something that we've seen for the time being, but it's something which needs to be monitored.

Alex Brooks - Canaccord Genuity

Very kind, thank you.

Jean Cahuzac – Subsea 7 SA - CEO

I think we've time for one more question.

Paul Gooden – Investment Relations Officer, Subsea 7 SA

One more question, please, operator.

Eirik Mathisen - DNB Markets

I have one quick question regarding the guidance for 2013. In Q2, revenue was about $1.6 billion, which is down roughly 10% year on year. In the Q3 report, you say that backlog with execution for the remainder of 2013 is about $1.8 billion, which represents about 12% increase year on year and almost 15% increase quarter on quarter.

In the Q2 report, you highlighted that we should expect normal seasonal patterns in the North Sea in Q4. So what exactly is driving this sequential increase in revenue in Q4?

Jean Cahuzac – Subsea 7 SA - CEO

I think what you describe reflects the complexity of our business, when you look at revenue, it comes from different parts. It comes obviously from the project execution, engineering, etc. And then it's combination of CLOV, which is a low-margin project, with some better margin projects in other part of the world, as in Africa.

But it also comes from timing of projects. Where we are in the timing of projects in Q4 and what will translate to the bottom line in terms of profitability? It also comes from, in some cases, from additional revenue with lower margin, which can relate to procurement or rock dumping for instance, which are costs plus in some of our projects.

So when you put all that together there are some pluses and minuses. And I think the best way to look at it is what we mentioned before, which is EBITDA will be in line with consensus for this year. And it's too early to comment on 2014 on what will happen, both on revenue and margin, and we'll try to be a bit more specific when we publish our end-of-the-year result.

Eirik Mathisen - DNB Markets

So we should expect most of the delta in Q4 to come from the Africa and Gulf of Mexico region. That refers to what you said about CLOV.

Ricardo Rosa – CFO Subsea 7 SA

I think, as Jean has said, we hesitate to comment about movements quarter on quarter because of the mix of projects. But I think we are working in full flow on CLOV at the moment and that will continue into the fourth quarter.

We're also working full flow as well on Guara-Lula in Brazil, and that obviously is affected by the fact that we're moving out of the autumn and winter season and into the summer months. If you look at Asia, we're also executing the offshore phase of Gorgon heavy lift and tie-in.

And when you start adding all these elements together this, I believe, justifies the indications that we've given about projected backlog for the fourth quarter.

Jean Cahuzac – Subsea 7 SA - CEO

And I would not forget the seasonal effect in the North Sea that we also expect.

Well, with that, I would like to thank you for participating to this earnings call and look forward to discussing with you at the next earnings call. Thanks a lot. Bye.

Operator

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