Stolt Offshore 3rd Quarter 2004 Results

12th October 2004 @ 15h00

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Presenters

- Julian Thomson
- Tom Ehret
- Stuart Jackson

Operator
Thank you for standing by and welcome to the Stolt Offshore Third Quarter 2004 Results Conference Call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press *1 on your telephone. I would like to advise you this conference is being recorded today, Tuesday October 12th 2004. I would now like to hand the conference over to your speaker today, Mr Thomson. Please go ahead Mr Thomson.

Julian Thomson
Thank you operator and good day to you ladies and gentlemen. Joining us on the call today are Tom Ehret, our Chief Executive Officer, and Stuart Jackson, our Chief Financial Officer. Details of our Third Quarter and Nine Months earnings, which we released earlier today, can be found on the Stolt Offshore website, that is www.stoltoffshore.com. If you go to the Investor Information section you'll find both the earnings release and the set of slides which go with this call.

Before we start the presentation the summarised financial results for the Third Quarter and Nine Months are as follows. The net profit for the quarter was $12.7m or $0.07 per share on net operating revenue of $309.6m. This compares with a net loss for the same period last year of $0.24 per share on net operating revenue of $397.9m. The net loss for the first nine months of this year was $18.2m or $0.12 per share on net operating revenue of $857.9m. This compares with a loss for the first nine months of last year of $132m or $1.42 per share on net operating revenue of $1,176m.

May I remind you that certain statements made in the course of this conference call which express the company's intentions, beliefs and expectations are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual future results and trends could differ materially from those which are in such statements due to various factors, details of which are contained from time to time in the company's SEC filings, including the company's 20-F filing for 2003. Copies of our filings may be obtained from our website or from the SEC. May I also draw your attention to the more detailed caution on forward looking statements which appears on our press release.

Tom Ehret and Stuart Jackson will now take you through the results for the Third Quarter and Nine Months. Tom?

Tom Ehret
Thanks. Good afternoon ladies and gentlemen. May I suggest you go to slide 3 of the website presentation. As I said in the press release quote, this is an important moment for Stolt Offshore. During the third quarter the company returned to profitability for the first time since the half-year in 2002 and with its best financial results since the third quarter of 2001. We have of course much further to go before my colleagues and I on the Board will want to say that the recovery is complete. But today's results are the best proof so far that we are moving towards our objective.

I would like to underline that this profitability has been achieved by a general lift in operating performance throughout the group. While there have been pockets of special performance – and I might single out Northern Europe and Canada in that respect – the growth recovery is a collective effort. It's also fair to single out the project management teams in the AFMED region whose rigorous approach as we bring the Bonga and Sanha project to conclusion have kept our largest region on track. It is this breadth to the group's performance which encourages us to believe, as we have throughout this year actually, that we will achieve break-even for the full year. I am particularly pleased that we can sustain such a view despite the short term setback triggered by an equipment failure on the Angostura project in Trinidad.

At this point in the year we also feel increasingly confident in describing several positive trends in our recent performance. Stolt Offshore is now securing its fair share of the major sound contracts in its target markets. Moreover, we adopted a policy last year of pursuing only those new business opportunities where we could bring superior resources to bear. This in turn should yield a strong sustainable margin for the duration of those projects going forward. Stolt Offshore is learning again that good contractual discipline allows a better…to price keenly and to protect monies. I'm pleased to say that at present we do not lack for commercial opportunities on which to bid. On this I will now hand over to Stuart Jackson for the next slide.

Stuart Jackson
Thank you Tom. If I could draw your attention to Slide 4 which is the financial highlights, just to give a bit more information behind the net profit of $12.7m for the quarter. In relation to the revenue level you will see that the revenue this quarter of $309.6m is down from $397.9m at this time last year. That's principally in relation to three reasons. In the AFMED region, Burullus and OGGS were running at full stream last year, although we don't have those projects running now. Similarly in the NEC region, Skerne Byggve and Vigdis were very active in the third quarter, so in line with our expectations these levels are coming down to a low level of activity throughout the period of 2004.

In addition the revenue line is being impacted by the asset sales that have taken place in the first half of the year, particularly in relation to Serimer Dasa and the Paragon Litwin businesses, so the revenue levels have come out because of that.

In relation to the net operating profit, you will see an improvement in that line. Two items I would highlight: firstly, in relation to the selling, general and administrative expenses where you'll see that our charge for the third quarter at $18.7m was substantially lower than the charge has been for the first two quarters of this year. That's as a result of the restructuring charges being taken in the first half of the year, but no charges were coming through in the third quarter. In addition in the quarter we did complete on some asset sales which took our total proceeds over the $100m mark. Those assets sales were broadly done at a break-even level, although we do note in the quarterly results a $0.8m loss in relation to disposals – that's principally in relation to this scrapping of equipment we have. Underlying the $12.7m profit for the quarter is good performance across all the business segments with the exception of Nemex as Tom as highlighted.

Turning now to the cashflow information on slide 5. After adjusting our net profit period for the non-cash items, we have an EBITDA level in the quarter of $39.2m which based upon $309m of sales equates to 12.7% EBITDA level. This is in line with the EBITDA levels we've talked about in the past but I should highlight that the third quarter is traditionally the highest quarter in relation to Stolt Offshore's business cycle.

Making adjustments from the EBITDA for working capital, joint ventures and minority interests because there's a net cash provided from operating activities of $17.4m in the quarter. In addition we have adjustments in relation to investing and financing activities of $18.1m. This is principally covered by the cash proceeds from asset sales whilst the Serimer Dasa sale was concluded in the second quarter, the cash was actually received in the third quarter. So $40m of the cash proceeds there is in relation to the Serimer Dasa sale. In addition we've sold the Seaway Explorer during the quarter as well as some smaller assets. During the quarter we've made $17m of repayments in terms of our bank debt and we also had $14.3m of capital expenditure in the quarter, and that level of capital expenditure is likely to increase as we go forward. Therefore in overall position, our cash position increased by $35.5m in the quarter.

Turning now to slide 6 where we provide some balance sheet highlights. Firstly in relation to our net debt or net cash position, you will see our debt has decreased from $297m to $280m in the quarter in line with normal repayments. Our cash position has increased from $262m to $297m although I would note that our cash position now reflects the cash balances of our joint venture in Sonamet/Sonastolt and at the end of Q3, $53m of that cash related to that joint venture. In terms of overall group position therefore our net debt position of $35m at the end of the second quarter is now reflected as a net cash position of $18m at the end of the third quarter.

Turning now to the current assets and current liabilities. Our current assets have decreased over the quarter by $47m although $40m of that relates to the proceeds received in relation to Serimer Dasa sale. Our current liabilities have decreased by $20m over the quarter and I would highlight that at the end of the third quarter those current liabilities included $112m of advanced revenue from customers compared to $126m at the end of the second quarter. Finally our shareholder's equity has gone up from $272m to $283m reflecting the gain in the quarter of $12.7m less a $1.4m deduction in relation to the cumulative translation adjustments. With that I will turn back to Tom who is going to take us through the Fleet & Key equipment review.

Tom Ehret
At this juncture it's probably appropriate to provide an update on our near term investment strategy. As you have noticed we have cash and we have less debt and therefore we have been focusing of late on securing our project performance going forward by investing in some of our key existing assets. We call this a Rejuvenation programme. Some of our assets are reasonably old and they need continued investment in order to provide us with the sort of reliable performance offshore that we require. As a result of this our 2004/2005 CapEx profile will be incremented upwards.

Several major investments are behind this. A new Stinger for the *DLB*801 – that is the piece of equipment which broke on our Angostura project. I hasten to add that this Stinger was ordered before the incident that interrupted the operations. The *LB200* which is the pipe lay barge which we'll undertake as of March 2005. The very significant Langeled project which is two years of pipe laying in the northern North Sea, a major dry dock and a major upgrade is being conducted on this asset in order to make sure that its performance in the field will be excellent. Finally we have decided earlier this summer to invest in a new much more powerful J-lay system for the Seaway Polaris which after all is our key enabler for deep water West Africa around which we have built our success on contracts like Erha or like Greater Plutonio.

Moving on to the next slide which is probably the last time we will include that slide. We had initially included that slide of major projects above $50 million in order to enable you to track how we were extracting ourselves from legacy contracts. I think we are now pretty much at the end of that phase and therefore this slide will disappear in future presentations. There is not much to say here except to highlight the fact that this is based on financial completion, not physical completion hence some of the apparent discrepancy between the figure and the length of the bars.

Moving on to our regional business performance review briefly, starting with Africa and the Mediterranean. The quarter ended 31st August saw us actually make a small net operating income – positive net operating income. The completion of Bonga is still as previously indicated expected by year end. Sanha is effectively completed at the end of September meaning that it is complete from a material point of view. There are still some minor things to do but which do not affect our revenue expectation and the completion of the work on the customer's viewpoint. Effectively what it means is that AFMED is now returning to a normalised revenue pattern.

Northern Europe & Canada again has displayed a very strong performance both in the contract wins and in project delivery with revenue slightly below last year's quarterly revenue in Q3 but with a net operating income which is larger. This region which has continually provided impeccable operational performance throughout these years is now supporting other regions on selected tenders and projects such for instance as the recently announced Santos Casino project in Australia.

Moving to NAMEX, a very disappointing quarter for NAMEX for which we had big hopes for this region this year. It had a very good order book, good contracts properly negotiated contracts and we were expecting it to deliver a profit. This will not be the case as a result of one single event which is a major equipment failure as I have mentioned before on the Angostura project. The good news is that lately the region has won several SURF and IMR contracts in the Gulf of Mexico which again is encouraging for the future.

South America, not a lot to say. It's a steady performance on two long term ship contracts. It continues to deliver. Right now our focus in that region is on future growth in a market which is rather complex and evolving.

Moving on to slide 11, Asia and the Middle East. I think the management there have done an excellent job in achieving break-even for the quarter despite a revenue which remains pretty low. It has always been a problem for this region to generate a profit because of lack of volume. The good news there is that we have won significant contracts especially the one I just mentioned, Santos Casino in Australia, but also some work in other parts of the region for Nippon Steel, and basically we expect that region's turnover to double in 2005 and accordingly we expect profits out of that region.

Finally the profit and loss to be complete includes the results of some corporate businesses. These are essentially the joint ventures in which we carry a position and also some one-off items such as gains on sale of assets and so on. What you will see obviously is that the revenue generated through these corporate businesses has reduced dramatically which results from the sale of Serimer Dasa and Paragon Litwin in particular. The net operating income remains fairly high. As I said it contains obviously the results of our joint ventures Seaway

Heavy Lifting and Paragon Engineering, both of which were very good and some one-off items.

Moving on to slide 12, our backlog and basically commercial success is depicted here with a backlog staying basically flat from what it was at the end of Q2 at $1.75bn. In addition to this we had a $115m of signed letters of intent for future contracts at the end of the quarter. Subsequently we have also received new contracts which are not included in that figure.

Moving to slide 13 and wrapping up this short presentation before moving over the questions and answers, I would offer the following concluding comments. Our industry right now is going through one of those occasional periods when it is essential to world current affairs. Several of the topics that preoccupy commentators like the current level of oil price, the vulnerability of the Iraqi oil fields and various challenges in other onshore provinces also have been argued to illustrate the growth drivers for Stolt Offshore's business. In short, medium and long term, reserve replacement and the supply of industrial world's hydrocarbon needs will depend on a steadily increasing degree of offshore and deep water developments.

It is clear that our decision to focus on the SURF market has served us well in 2004. We believe that this will prove to have been an equally valid choice as the offshore and the deep water up-cycle gathers pace, although we realise of course we have a lot more to do. Having chosen the right markets and the correct strategy, we also feel now that we are able to offer our investors a company with stabilised operating performance and capable of moving forward in a more predictable fashion. As I said at the outset we are close to achieving our first objective, break-even in 2004.

I should like to close this summary by reiterating our continued confidence that Stolt Offshore is on track for a return to acceptable profits and sustainable earnings growth. Thank you for your attention. We will answer the questions now.

Operator
Hello sir, my apologies, there was a technical difficulty. Can everyone here me now sir?

Tom Ehret
We can hear you.

Operator
Thank you sir. At this time ladies and gentlemen if you would like to ask a question, please press *1 on your telephone and wait for you name to be announced. Our first question comes from Kjell Erik Eilertsen from Alfred Berg. Please go ahead.

Kjell Erik Eilertsen
I have a few questions with regards to the AFMED region. Could you specify to us the revenue contribution from the Sanha and the Bonga contract during this quarter as well as the results of these contracts and whether there were some reversals done on these contracts during the quarter.

Stuart Jackson
During the quarter both Sanha and Bonga contributed $19m each in relation to the revenue. In relation to the results from the two projects, Sanha had a small deterioration of $1m; Bonga actually had an improvement in results of $4m during the course of the quarter.

Kjell Erik Eilertsen
Does that mean that these two together had a contribution, a positive contribution to the EBITDA of $5m?

Stuart Jackson
No, on the Sanha asset there was a $1m loss and a $4m improvement on Bonga. So $3m in relation to the net position for those two projects.

Kjell Erik Eilertsen
Ok, and then could you also specify the provision taken in the NAMEX region relating to those equipment failures, approximate number?

Tom Ehret
Clearly the provision taken in the third quarter is commercially confidential. This project is going on at the moment and we are holding discussions with client and suppliers and so on and therefore you will understand it is commercially

confidential. To a degree also it remains subject to those discussions. We expect however this provision to be less than $25m.

Kjell Erik Eilertsen
One final question, you mentioned the CapEx outlook for the remaining part of 2004 and into 2005. Could you specify to us in rough numbers in dollars, what do you expect your CapEx budget to be for 2005/2006 to keep up the…

Tom Ehret
We have in the past indicated a normative standstill CapEx of $50m dollars per year.

Kjell Erik Eilertsen
One five?

Tom Ehret
No, five zero, that is the indication we have given in the past. With the rejuvenation program that we have commenced we now believe that we will front end load the spend in the next two years and therefore will probably see something like $80-90m in '05 and '06 returning later down to probably $60-70m.

Kjell Erik Eilertsen

Ok, thank you very much.

Operator

Thank you. Your next question comes from Anders Rosenlund of ABGSG. Please go ahead.

Anders Rosenlund

Could you please comment on margins in 2004 more specifically? Are there any reasons you revised your upper estimates? What kind of comments do you have to that?

Tom Ehret
We don't usually comment on margins specifically except on a general trend basis. The pricing environments so far in recent months or last year so to speak

has been reasonably good. We don't see right now any trend change. As I indicated I think on previous occasions in this business you will have short periods of oversupply and short periods of undersupply, and when they occur they can last a few months and they will therefore have an impact on the margins either up or down which will be secured during those periods, but on an average basis going forward, on a trend basis I don't really see that the market is changing such as to cause you to revise your estimate.

Anders Rosenlund
So would you say the last quarter of EBITDA margin of 12%, that remains sort of beyond not your guidance, but your target or…?

Tom Ehret
Yes, a couple of points here about the 12% EBITDA. Again each time we make it clear that this is project EBITDA we are talking about and therefore you have to always bear in mind possible over or under recovery on fixed assets that comes after that. The second point is I don't think you should judge EBITDA margins on a quarterly basis because you will have significant variances from one quarter to the other. I think it's reasonable to consider EBITDA margins on an annual basis and 12% would be a sort of normative level on an annual basis. You could have higher quarters and lower quarters.

Anders Rosenlund
Could you please comment on what we should expect of normalised net debts?

Stuart Jackson
We've said before in terms of year end net debt position that we would expect to be sub $100m. We are now in a net cash position although we still have a working capital position to work our way through. So I would have thought something in the region of $50-75m should be the range you would look at for net debt at the end of this year.

Anders Rosenlund
Ok, and then finally on top line developments for next year. Previously you have said between $1.4-1.5(bn) and that was excluding the companies that you have now consolidated. Any changes to that?

Stuart Jackson
Not really.

Anders Rosenlund
Thanks.

Operator

Thank you. You next question comes from Rune Julieusen of Carnegie. Please go ahead.

Rune Julieusen
Thank you and good afternoon gentleman. First, a follow up on the DLB 801 Stinger problems. Are you expecting to see any provisions to be taken in Q4? Secondly on the margin discussion, are you saying that you're not seeing any upwards pressure on pricing in the market at all? From my point of view it seems like the amount of tenders or requirements out in the market is steadily increasing and the vessel availability is becoming more and more limited in 2-3 years' perspective.

Finally perhaps a question more directly to Mr Ehret. How would you compare the equipment, people, culture in Stolt Offshore with the company (you previously) operated. Are you confident about delivering and achieving the same margins here as you did there?

Tom Ehret
I will answer the three questions in turn and I will not answer the last one first because I need time to think about it. I will start with the 801 Stinger failure question. We have taken the bulk of the expected charge for this problem in the third quarter. Any Q4 charge if it happens will relate to repair work which is currently ongoing and should not be comparable in size to the result we have taken in Q3. I don't propose to comment further at this stage. As you will understand it is an ongoing operation but the bulk of the charge has been taken in Q3.

As to the margin question, it's a difficult one because as I said in my earlier answer you will have periods of undersupply when margins may be allowed to go up in certain regions at certain times and then you will have other periods where this is not going to be the case. I don't think it's very uniformed. It's a very lumpy business and therefore you will have these peak and trough periods. What I was trying to convey is that if you take it over a period of one year at a trend point of view I do not at the moment see a material change in that respect. Now that is what I see now. In a year's time you may well be right, that the continued pressure on the supply/demand equation will have steadily increased and that margins will as a result mechanically improve. I just don't see that happening yet in our business today.

As to the third question i.e. comparison between Stolt Offshore and Coflexip, people equipment etc, I would say the best people are definitely in Stolt Offshore. You wouldn't expect me to say anything else and by the way a lot of them are coming from Coflexip anyway. But generally speaking, this is a good company with good people and I wouldn't for one second make any qualitative comments about the people. I'm very happy to be with these people, I'm very happy to work in this company and it is an excellent company which will go forward from success to success.

The equipment; this company has more than Coflexip had and some of it is a bit older. That's a fact. I am sure you're not discovering that fact. It is a fact that is perfectly understood by us and totally manageable. So we are managing that situation. We are selling those assets. Stuart has mentioned earlier that we have scrapped a certain number of assets and we will continue to do that. So from that perspective we manage the problem.

Are we going to generate the same sort of margins as Coflexip once did. No, probably not because you must remember that within the Coflexip portfolio you had flexible pipe and flexible pipe does have a profit profile, if you will, that's markedly different or an EBITDA profitability from the pure contracting activity and which was pulling Coflexip's margins up. We don't have flexible pipe in house. We have a 50% ownership in NKT Flexibles which makes flexible pipes but which is quite a small player compared to Coflexip.

Operator

Thank you. Your next question comes from Mick Pickup at Lehman Brothers. Please go ahead.

Mick Pickup

Good afternoon gentleman, a couple of questions. You said somewhere in your presentation that your new contract awards are in line with your commercial plan. I find it difficult to find out what the exact market here is, the size that you are aiming for, so what do you believe your market share is and what is your commercial plan? Secondly just on your number of shares, I notice there's a diluted shares in issue now which is greater than the basic shares. Just what's the cause of that slight dilution?

Tom Ehret

I will leave the dilution question for Stuart. On the market share question and on our commercial plan, that's a bit difficult because the market share…if you try to determine a market share on a worldwide basis it would be pretty meaningless. Our market share in the North Sea is higher than our market share in Asia Pacific for example. So what does an average mean? Not a lot. I think we have a fair idea of what our natural – what I call natural – market share should be in West Africa, in the North Sea, in the Gulf of Mexico, in Brazil and to a lesser degree in Asia.

What I would say to you is that whilst in 2003 we were trading below our natural market share just because we had difficulties to deal with and we had a credibility issue in the marketplace, we are now back to trading at what I call our natural market share in those various regions. These will vary from region to region and the order of magnitude would be I would say in the markets where we are in a leadership position like in Northern Europe or in West Africa. You would be talking about typically, not mathematical, typically you would be talking about 25-30%, that's the order of magnitude and it can go up and down. When you have a last contract award it will be high, it will be 35%. When you lose a major contract you drop to 22%. In the next quarter you're up to 28% again and so on, but that's what I call a natural market share if you will. The message today is: we believe that we are back to our natural market share in our various markets and probably increasing in Asia Middle East where we basically have just recently won our first major SURF job, a market in which we were not present up until now.

Stuart Jackson

Then in relation to the diluted number of shares Mick, when we move into a position of being in profit what we do is we reflect in terms of the number of shares outstanding. Those shares in the option scheme which are in the money in terms their products based against the rolling average price in the markets, so this is the rolling average up until the end of the third quarter. We don't show that when we've been at a loss position in line with the US GAAP treatment because the effect of that dilution will be to reduce the earnings of loss per share in those quarters. That's the reason for the change between the loss and the profit. As the share price maintains its current level what you'll see in quarters going forward as long as we are profitable is that there will be more shares shown in that diluted line.

Mick Pickup
Ok, thank you very much Stuart.

Operator
Thank you. Your next question comes from Steven Gengaro of Jefferies Company. Please go ahead.

Steven Gengaro
Thank you and good afternoon. Two questions if you don't mind. The first is as we look out into 2005 and we look at the backlog which appears to be very healthy, can you give us a sense for the performance you'd expect on a regional basis or which regions you would expect better year over year performance from vis-à-vis this year?

Tom Ehret
It is totally clear that we would expect a much better performance out of AFMED in 2005 than what we have seen in 2004, although, as I said earlier, the management there have done a fantastic job in steadying the ship as it were, but they're still loss making in 2004. So we would expect a major improvement in that particular region. I would say the North Sea has been steadily producing good performance and we don't see any reason why that would not continue.

NAMEX is probably the area with the biggest question mark in that respect. They have a better order book into 2005 than they had…they had a similar order book for 2005 than what they had in 2003/2004. So that is good visibility for that particular region. Everything will depend on whether there is any knock-on effect from the Angostura delays on some of the contracts which will be carried out in the early part of 2005 by the same asset. Of course the good thing that has happened if I may say so is Hurricane Ivan who has certainly produced some extra work for the fourth quarter and probably the first quarter in 2005, so to some degree this increased activity hopefully will mitigate some of these risks to some degree.

Other than that I don't think that I want to comment much further. We are right in the midst of our budgeting exercise right now and we are working on the scenarios for next year, asset allocation, cross regional activities and so on and so forth and until we finish this exercise I would be nervous to provide a lot more indications than what I have just done.

Steven Gengaro
Just one quick follow-up. Can you help us get a better handle on what we should expect as far as a tax rate or taxes for '05?

Stuart Jackson
The guidance we provided in that respect is broadly to take 25-30% of our profit before tax as the estimate for tax in that year.

Operator
Thank you. Your next question comes from Divya Sisodiya of Simmons Company. Please go ahead.

Divya Sisodiya
Thank you. My first question relates to your break-even guidance. By my calculations you will need to have a net income result of about $18m in Q4 and I would just like to get a better understanding of exactly how that will be achieved. What proportion of that is anticipated to come from asset sales such as Paragon or other asset disposals?

Tom Ehret
It is not anticipated to come from asset disposals but essentially the big variable in Q4 which will enable us to reach that level or not is the timing and the quality of our closing of the Bonga contract. This contract as you know has been a difficult one, we have taken substantial losses on this contract in the first two quarters of 2004. We have recovered a little bit of ground in Q3 as Stuart has indicated earlier on this call. If we complete the work by early December as agreed with the client, we should see a possibility for improvement that would enable us to reach the sort of level that you have indicated. Should the work suffer some delays or should we have some breakdowns, that might not happen.

We have never presented the break even as a guidance by the way but as a management objective. We still have that objective, we feel quite confident about that objective but there is a single item that has a big bearing on it and that's the way and the timing of concluding the Bonga work.

Divya Sisodiya
As a follow up to that, when do you anticipate the sale of Paragon given the numbers and can you give us any indication of how much of an impact that will have?

Tom Ehret
I would be a little guarded on that latter point as the discussions have been protracted, are at the finishing stages and, as is customary in those circumstances, there is always some haggling going on, so I don't particularly want to give too many details about that discussion. It is my anticipation that a transaction will be completed by the end of November.

Divya Sisodiya
And do you anticipate any other asset sales?

Tom Ehret
Yes, but not of a material nature that would attract attention. Stuart has mentioned earlier, we've scrapped some assets, we're selling some assets on occasions at break even because we tried to reduce our asset base and the costs attached to managing such an asset base. So yes, there are other assets up for sale. They'll be small, they'll be a number of them. It'll be an ongoing thing until we feel we have cleaned up to the level that we feel is right. Paragon Engineering will be the last sizeable one for the moment.

Divya Sisodiya
Ok, thank you.

Operator
Thank you. Your next question comes from Rune Juliusen of Carnegie. Please go ahead.

Rune Julieusen
Yes, one more question please. For the first time in several years we're seeing that the global [unclear] in all kinds of segments, it's finally flattening out to some extent. You mentioned you had at least in some segments [somewhat older fleet] – are you considering perhaps investing in new assets going forward when we move in to '05? How do you look at the possibility of seeing some of your

competitors investing in new assets or will they actually see that supply side or the number of assets now actually flattening out?

Tom Ehret
It's an interesting question especially coming from Norway. I've been in this business for 30 years and whenever the business got oversupplied it came from excessive enthusiasm from that region's ship owners. I hope they're not going to fall for it this time. I think there has been a reasonable amount of asset discipline in the business in recent years and I hope it will continue. People have built new assets when they had a very specific need and a very specific strategic objective like when I was in my former company, Deep Blue and things like this, and that's ok.

What there hasn't been is speculative building of lots of new ships and I hope that's not going to happen, and I believe you will see the main players like Stolt Offshore invest in new assets when they have a specific technical and strategic solution to deploy to the marketplace. We will certainly look at that, yes. I wouldn't expect us to do so in 2005 though.

Rune Giulisson
Ok, thanks.

Operator
Thank you. Your next question comes from Arnestein Wigestrand of Enskilda Securities. Please go ahead.

Arnestein Wigestrand
Yes, I have a question regarding increased steel prices. Could you please tell us how that will affect the results going forward?

Tom Ehret
I do not believe that steel prices will have a measurable effect on our results going forward. Basically I think we've done a reasonably good job at pre-positioning our supply of pipe and in our [unclear] contingencies at bidding time for potential increase of commodities, so I do not believe steel prices will have a material or even a measurable effect.

Operator

Thank you. Your next question comes from Siel Eric-Eilefsson of Alfred Berg. Please go ahead.

Kjell Erik Eilertsen
I have another follow-up question. You mentioned at the beginning that the revenue contribution from the Bonga and the Sanha project was $19m from both of these projects. Earlier I've heard that in the second half year expectations and revenue from these two projects will be approximately $75m – is that still the case, that remains your revenue expectations of Bonga will be approximately $37-40m, is that correct?

Tom Ehret
I'm sorry, where did you get the $75m from?

Kjell Erik Eilertsen
Asking around!

Tom Ehret
I'm sorry, we can't comment on that particular number. I'm not saying it's wrong, I just don't know what reference that is based on. I would say that $37m doesn't shock me intuitively. I think it will be more Bonga than Sanha because Sanha effectively is finished and completed. The bulk of the work was completed at the end of September so you have one month of Sanha revenues in there for the fourth quarter, whereas Bonga you will have three months. The global number will be skewed towards Bonga, that's the first comment, and typically the indication we could give is about $10m for Sanha and about $30m for Bonga. This is very indicative.

Kjell Erik Eilertsen
When you made the provisions related to these contracts at the end of the first half, were those provisions made in such a way that you would expect zero contribution from these contracts throughout its expected life or were these provisions taken assuming for margins from these contracts?

Tom Ehret
That's the way it works. These contracts were both loss making contracts already when we had the deterioration in the first two quarters. The way it works is that when you identify further costs to complete the work over and above those

that you had already considered, you just add them to the cost to completion and you take the full increment at the time when you make that judgement call.

Kjell Erik Eilertsen
Then we're talking losses on the EBITDA level, right?

Tom Ehret
I would definitely say so on Bonga, probably on Sanha as well. On the length of project basis these are still going to be loss makers on a life of project basis. The provisions we took in the first semester which was $68m on the two, what we said before and which we maintain is that hopefully we can claw back part of that if we complete both of these jobs well and within time. We have completed Sanha so far within time. Bonga is the one that has the biggest potential for reducing those losses somewhat if we are successful.

Kjell Erik Eilertsen
Finally, you had no restructuring costs in this quarter. You had about $17m in the first half. Do you expect any more restructuring costs to come in this year?

Stuart Jackson
No, we don't expect further restructuring costs going forward, apart from are at present looking at refinancing given the level of cash we have on the balance sheet. There will also be costs that come through associated with that refinancing if we close it in the fourth quarter.

Kjell Erik Eilertsen
Thank you.

Operator
Thank you, your next question comes from Divya Sisodiya of Simmons Company, please go ahead.

Ruaridh Stewart
Hi, it's actually Ruaridh Stewart with Simmons. You mention in the press release, I think there's a comment about settlement of claims helping with the

strong result – I was just wondering if you could give us a bit more detail in terms of the amounts and regions those claims pertain to?

Tom Ehret
Sorry, what are you referring to?

Ruaridh Stewart
Page 2 of the press release, the second paragraph. The last part of that paragraph.

Tom Ehret
Of course I won't go into chapter and verse on which client, which claim and for how much. I would put it to you this way. In a business like North Sea you permanently have a portfolio of claims, variation orders which are outstanding and you settle every once in a while and then you create new ones as the projects develop. In this particular quarter we've settled one such claim which was a bit larger than the others but I don't think this changes the profile if you will of the regional results comparative to one another.

Ruaridh Stewart
I guess if I'm hearing you right then the North Sea result was boosted somewhat by a claim settlement.

Tom Ehret
If you want, but then it was also probably hit in previous quarters by the equivalent provision. In a place where you have a lot of contracts like North Sea, you have a lot of contracts of small to medium size, you will have a relatively large portfolio of outstanding claims and deals, some of which will be created and some of which will be settled during a period. Yes, you will have some quarters which will be lifted and some quarters which will be depleted by that effect. What I'm saying is whilst that is measurable it is not material to the tune of changing the profile of the region.

Ruaridh Stewart
Sure, ok. Then I guess staying with the North Sea, the outlook over the next three or four quarters I guess for your November quarter end at Q4, still looking

at fairly strong DSV activity. Going forward, what's your outlook? Obviously I presume Q1 would be weaker but then your outlook for 2005 in general, are you continuing to see relatively strong activity levels there?

Tom Ehret

I think the North Sea activity level is promising and particularly out of Norway for 2005 and 2006. On the UK side there is a quite a bit of activity also coming from the independents, but generally speaking we are quite positive in terms of the outlook for the North Sea, driven essentially by Norway.

Ruaridh Stewart

Sorry, I've got a number of smaller questions that I want to clear up. The 801, you had equipment failure. You've taken a certain amount of provision against that in Q3 and you talked about paying for the repairs. Any provisions there in Q4? My question would be: does that take into account any issues with clients that you have with projects coming up after that? If I remember rightly Angostura was meant to be finished in September and you're only two thirds of the way through. What then is the impact of the discussions or potential impact going forward if you're having to knock back other customers 3-4 months?

Tom Ehret

The whole subject is being discussed as we speak so you will understand that I won't go into this. We have taken a view in terms of the consequences going forward and we have taken provisions accordingly but that's really all I'm prepared to say at this stage. Obviously we are having to face a situation where the winter weather in that area is atrocious. Even the summer is pretty tough. Yes, there will be knock-on effects but on the other hand we're not the only party involved here and therefore there is a global negotiation to be had and this is taking place.

Ruaridh Stewart

Does the provision you've taken, is that just an assessment of the impact with BHP or does it take into account any potential impacts with future projects or customers for that unit?

Tom Ehret
I'm not going to comment on that, sorry.

Ruaridh Stewart
I guess the last question I have is, you've talked about being able to realise a 12% margin in the business. There's no reason that you couldn't attain that kind of level? I guess from the discussions that I've had, it looks like the market is kind of assuming that you'll achieve that in 2005 whether you've communicated that to them directly or not. If you're going through the budgetary process right now, when would you be ready to come out more officially to the market to discuss your guidance? Would that be in your Q4 results where we should expect some guidance included there?

Tom Ehret
Yes. We will come to the market when appropriate and at the latest when we publish our Q4. We have not excluded the possibility of doing an earlier guidance call but I'm not prepared to commit to that just yet. Certainly we're aware of the need for us to provide guidance to the market as soon as we can. Right now you will appreciate we're not particularly comfortable in doing it since we haven't completed the budgeting exercise.

Ruaridh Stewart
Sure. The SG&A fell relatively significantly in the third quarter. Can you talk a little bit about what the differentials were there and what you expect of that going forward?

Stuart Jackson
The level of SG&A we had in the third quarter of just under $19m is not a bad proxy for our SG&A going forward and therefore the difference between that and the $61m for the first half of the year is put down to restructuring activity.

Ruaridh Stewart
Does that include signing bonuses for the Coflexip people that Tom hired?

Tom Ehret
What bonus are you talking about?

Ruaridh Stewart

I was only pulling your leg. Thanks very much.

Operator
Thank you. You have no further questions waiting at this time sir.

Tom Ehret
I think then we will close the call now. Thank you for your attention and thank you for your questions. Any follow up questions can be channelled through to Julian Thomson as usual. Thank you.

Operator
That does conclude your conference for today. Thank you for participating, you may all disconnect.