

BOURBON FULL YEAR 2014

March 4, 2015

Operator

Welcome to those who are connected by phone and by webcast to the BOURBON 2014 annual results. For your information, today's conference will be recorded.

And now, I would like to hand over to Mr. Christian LEFEVRE, BOURBON's CEO.

Sir, the floor is yours.

Christian LEFEVRE, Chief Executive Officer, BOURBON

Good morning. Thank you for attending this telephone conference presenting our 2014 annual results. I am here with Mr. Nicolas MALGRAIN, who is deputy CEO for finance and administration. After having reviewed the main operating results, I will yield to him. He will be presenting in details the financial results. And to wrap it up, I will give you some outlook. We will then be available to answer your questions as well as questions from people who are on the web.

We published this morning our financial results with a solid adjusted EBITDA at 499.5 million euros, and an operating margin at 36.1%, up by 1.8 points, thanks to good cost control, stemming from an action plan that was initiated in the second quarter, 2014.

In the second half of 2014, EBITDA is up by 22% relative to the second half of 2013. The net income amounts to 98.7 million euros. It is down by 31% from 2013. It reflects a transition year in the type of our business model, with higher vessel charter costs and a decrease in the capital values coming from the sale of our vessels.

BOURBON comes up with a free cash flow up at 466 million euros, and reduces its debt by 350 million euros, at 1.349 billion euros.

In a challenging market environment at the end of the year, we post good performances, operationally speaking. In the safety area, we recorded a total recorded incidents rate per million hours worked at 0.76, slightly higher to our target. However, it positions us amongst the most high performing companies in our industry. Utilization rates of our vessels, excluding crew boats, are slightly down compared to 2013, by 1.8 points, at 97.7% while average chartering rates, excluding crew boats, are stable at 19,658 dollars per day. Our customer performance has been beefed up further, and today, ten major clients – national companies, contractors – represent 60% of our revenues, and more than 100 customers represent the remaining 40%. In terms of technical management and administration, the 504 vessels in our fleet, average age being 6.4 years, show a high operational availability at 95.5%. We are ahead by one year on our 2015 target which was at 95%. Such performance strengthens our standardization strategy pertaining to our field and to its propelling equipment.

More than ever, we remain focused on our fundamentals: excellence in the execution of services for our clients, and reducing our vessel operating costs and our overheads.

Our cost-cutting action plan has been well initiated and the whole company is engaged for the success and adjustment of the company to the new environment of the offshore oil market.

I will now yield to Nicolas, who will shed some light on the accounts, and then I will come later on to present our outlook for the market and answer your questions.

Nicolas MALGRAIN, Executive Vice-President & Chief Financial Officer, BOURBON

Thank you, Christian. Good morning, everyone. As most of you have been aware of, when we published our results this morning, 2014 is characterized by 3 main points for BOURBON:

- Higher revenues and also an increase of our profitability.
- A transition towards a new business model.
- And the generation of a free cash flow up and a significant reduction in our net debt.

2014, first and foremost, is a year when we saw higher revenues and an increase of our operating profitability. Our EBITDA margin has risen by 1.8 points relative to last year, with a good operating cost control, and a better control of our overheads. Broadly, operating cost excluding bare boat charters are increasing by 2.8%, while the fleet operating increases by 5.1% and income by 5.6%. Now, overheads are in a limited increase, at 2.7% over the year, which goes in the right direction.

All the segments have improved their EBITDA margin with the exception of the crew boat segment which saw a more difficult year.

The EBITA for the group is rising by 10.9% in value terms from last year, at 499.5 million euros, i.e. a margin higher by 1.8 points at 36.1%.

Next, 2014 is a transition year of our business model, where a part of the vessels had been sold since 18 months and taken in a charter away for 10 years. Now, the transition makes a reading of our accounts, and in comparison with the previous year, a bit more difficult. So, I suggest that we look at the main impacts of that transition in our financials for this year. The first impact on the business model is the increase of charters relative to the vessels that were sold and taken back in charter, the amount of charter cost amounts to 110.6 million euros, steps up by 97.5 million euros from last year. Such impact reduces the level of EBITDA and EBIT from one year to the next. The second impact on the business model is the recording of capital gains related to the disposals of vessels. The capital gains recorded this year amount to 61 million euros, a substantial number, but down by 78 million euros from the previous year. That second impact therefore has also a negative effect on the level of EBITDA and EBIT when compared to last year. The third impact comes from the increase of provisions for major maintenance on vessels that have been disposed of. For those vessels that were sold and taken in charter mode, bare boat, we have taken charges for major maintenance. So, provisions recorded this year amount to 39.7 billion euros, which is up by 31.7 million from the previous year. That third impact reduces also mechanically the EBIT level when compared with the previous year.

So, the combination of good operating performance and the three transition impacts of our business model give us an EBIT at 138.6 million euros down by 54% relative to last year, and at 10% of the adjusted revenue. The transition of our business model accounts for a large part for the sharp variation of the EBIT from one year to the next.

If we look now more carefully at the financial result, there are two points to be taken away when look closely at our result: first of all, the reduction in the group's net debt leads a decrease in the cost of net debt which amounts to 52.7 million euros, i.e. a drop of 17.8 million compared to the previous year, i.e. 25%. Then, we benefit from a strengthened dollar at the end of the year, and a positive FOREX result, at 62.1 million euros, unlike the previous year. With regards to the effective tax rate, it is standing at 24%, slightly higher compared to the previous year.

All in all, the net income amounts to 98.7 million euros, with a group share amounting to 73.7 million euros.

Lastly, the third and last major aspect for the year is an increase of the free cash flow, at 466 million euros, i.e. a rise of 5%. As pointed out by Christian in his introduction, the execution of our Asset Smart Strategy since June, 2013, has allowed a strong generation of free cash flow, and a cut which was substantial in the net debt of the group, which amounted to 0.15 billion euros at the end of June, 2013. And now, in 2014, the implementation of that strategy has allowed us to reduce the debt by 350 million euros. And at the end of December, 2014, the net debt totals 1.349 billion euros. Let me remind you that we are including in the definition of our free cash flow the cash that is generated by operations and the cash coming also from the sale of vessels as managers of a significant vessel fleet.

Let us now get an update on the progress of that so-called "Asset Smart Strategy". In terms of our initial disposal scheme of 2.5 billion dollars, to this day we have initiated a sale of 1.8 billion dollars of vessels, with 3 players, namely ICBC, Standard Chartered and Minsheng.

With respect to our goals to lower the debt, we maintained the 3 goals of principles that have been established:

- A ratio below 0.5.
- A net debt ratio to EBITDA below 2,
- And a bare boat charter ratio to EBITDA below 30%.

With regards to the reaching of these 3 targets, we confirm that there will be any other investments beside those that have been already initiated as part of the BOURBON 2013 plan. The total amount of disposals with regard to the Asset Smart plan will therefore adjusted, so that we can maintain a charter cost ratio to EBITDA under 30%, regardless of market conditions.

As a consequence, the pace for reducing our financial debt will depend of the pace and level of disposals carried out and of the free cash flow generation under the new market conditions. Therefore, BOURBON's financial performance in 2014 translates into a net income of 98.7 million euros, which can be accounted for the continuation of the expansion of the operating fleet in line with our BOURBON Leadership Strategy 2015. Then also the increase of our operating profitability in all our segments excluding crew boats and under the effect of good cost control, the execution of our Asset Smart Strategy and the transition towards a business model with charters, as well as a favorable impact on the accounts due to a stronger dollar.

For 2015, in terms of managing our FOREX risk, we decided to hedge partially our exposure of the estimated EBITDA to the dollar at a rate of 1.23.

Let us look now at the goals for last year, and the new goals for 2015. We are slightly below our target for growing our revenues in 2014, but we did exceed our growth target in terms of operating profitability. This is due to the first steps taken in 2014 in terms of cost control. Now, for 2015, we will maintain and strengthen these measures designed to control operating cost and reduce our overhead expenses. As a matter of fact, a large number of our customers announce reductions in their CAPEX and the launch of cross-business programs towards reducing cost, and we have to adjust to that. Therefore, given these new market conditions for 2015, our objectives are to have a stable revenue or slightly down from 2014, and an EBITDA margin slightly down.

So, these are the main points to take away for our BOURBON accounts in 2014.

Thank you for your attention. I will turn it over to Christian, who will comment the outlook for 2015.

Christian LEFEVRE, Chief Executive Officer, BOURBON

Thank you, Nicolas. So, what is our outlook for this year, 2015?

Our industry, in the midst of a busy cycle due to the sharp drop of the oil barrel price, CAPEX by our customers are down by 15% for the major ones, and up to 30% for the so-called “independent ones”. And with cost, reduction cost that are unprecedented and are being put in place by the oil producers. In this context, BOURBON benefits from resiliency factors to face this new environment.

First of all, our operating performance, safety, which is the technical availability rate of the fleet which is the real dependability of our fleet, also the engagement of our staff, all of this is widely recognized by our customers.

Our revenue is well-balanced in our 4 segments, and our operations, such as deep offshore supply vessels and the shallow water offshore supply ships and crew boats and MIR sub-sea, our customers are well diversified and our location is internationally excluding the USA, given the Jones Act, and everywhere in the world with regional facilities on the bases of local partnerships. BOURBON therefore can meet the needs of the majors, national oil companies and also independent operators and contractors. On the financial front, the maturity of the business model is such that we generate growing free cash flows and reduce our debt, therefore substantially -30% relative to the highest level in June, 2013, and our financial discipline for the future, as explained by Nicolas, accounts for all of this. Added to this, our financial performance will be favorably impacted by a higher dollar.

On the basis of these resiliency factors, BOURBON is adjusting and more than ever, in 2015, we will be relying on 4 pillars:

- First of all, excellence in the execution of services
- Dramatically reducing costs
- Being close to our customers, listening to them with the aim being to favor the utilization rates of our vessels
- And also, the commercialization of our fleet and services in our regional facilities, with the contribution of our local partners.

In this context, we foresee for 2015 a stable revenue, or slightly perhaps down, with a slight reduction of the ratio EBITDA to revenues. In 2015, investments in vessels will be down by nearly 50%, with the delivery of 18 new vessels: that is 10 supply vessels, 2 IMR vessels, and 6 crew boats. The board of directors will put forward to the shareholders meeting of 21st of May, 2015, to maintain the level at its level, 1 euro per share.

Thank you for your attention. We are now available to answer your questions.

QUESTIONS/ANSWERS SESSION

Operator

If you wish to put a question, press on * (star), followed by figure 1. If you use your phone, make sure that you have not activated the silence button.

Once again, to ask a question, press on * (star) followed by the number 1. We will wait for a few moments so that you can put your question.

First question, coming from Jean-Luc ROMAIN, of CM technique sécurité.

Jean-Luc ROMAIN, CM CIC Securities

Good morning. I have a question on your deliveries expected for 2015: how many vessels? What kind of vessels? And remaining CAPEX for 2015? I understand that there are investments as part of your plan 2015, they are no longer growth-related expenses, is that the right thing to understand?

Christian LEFEVRE, Chief Executive Officer, BOURBON

Well, yes. For 2015, there are 18 vessels that will be delivered. So, these vessels represent, apart from down payment, already paid 200 million euros to be paid in 2015. And thereafter, in 2016, what will remain are 2 other vessels which will be for delivery, rather in the second half of 2016.

Operator

We will now take our next question, from Société Générale.

Guillaume DELABY, Société Générale

Yes, good morning, everyone. One question: I am trying to find out, starting in 2016, normalized, standardized charter costs. These charter costs, if I understand, shouldn't represent more than 30% of the EBITDA, so if we believe that EBITDA of 2015, 480 million euros, it would mean that charter costs in 2015 cannot exceed 100 to 150 million. Did I understand properly? First this, and such a rule which is charter cost to EBITDA, 30%, is it a rule? Is it really the rule that will be driving the pace at which you will continue with this Asset Smart program?

Christian LEFEVRE, Chief Executive Officer, BOURBON

Good morning, Guillaume. Absolutely, you did understand, absolutely. Your calculation is the right one. These are the prices of the rule. And it is that rule that will be driving the pace for our lower debts or our deleveraging.

Guillaume DELABY, Société Générale

So, if the EBITDA goes down more than expected, you will be slowing down the pace of the remaining 700 million?

Christian LEFEVRE, Chief Executive Officer, BOURBON

I would state it differently. I would state that the pace of disposals will be carried out in such a way that this ratio should be complied with. Today, if you do the math, that ratio is at 22%. Therefore, we do not wish that it exceeds 30%. 3-0.

Guillaume DELABY, Société Générale

This is very clear, thank you for your answer.

Christian LEFEVRE, Chief Executive Officer, BOURBON

Thank you, Guillaume.

Operator

Our next question comes from Alain PARENT, from Natixis.

Alain PARENT, Natixis Securities

Good morning, and thank you for taking question. The first one is regards to the provisions for big maintenance. Now, what you recorded in 2014, does it include all the program that has already been initiated, the sale and lease back, or should we expect other provisions for big maintenance in 2015 if there are no new disposals in vessels put in place in addition by that date?

Christian LEFEVRE, Chief Executive Officer, BOURBON

You noticed that what remains are a few vessels that will be sold in 2015 in the sale and lease back program, but relative to what has already been implemented, it is something minor. So, you have most of the impact which today is in the accounts of 2014.

Alain PARENT, Natixis Securities

Second question to build on Jean-Luc's question on the CAPEX: so, 200 million to be cashed up on new vessels in 2015, and what about the maintenance levels?

Christian LEFEVRE, Chief Executive Officer, BOURBON

The level of CAPEX for maintenance, as you know it is a bit more complicated to make forecast, because the CAPEX for maintenance purposes depend on several things. First of all, they depend on the vessels that will be technically operationally in downtime, and then the work that needs to be carried out on those vessels. So, it is more complicated to get forecast that would be very accurate in this regard.

Alain PARENT, Natixis Securities

Did you notice significant swings from one year to the next based on what you were discovering on those vessels?

Christian LEFEVRE, Chief Executive Officer, BOURBON

In general, these technical downtimes are well forecasted. We have good visibility on the work to be carried out on them. However, it is possible that we will be able, depending on the use of those vessels, that we be able to postpone a bit these statutory maintenances in 2015. These tactical stoppages. So, this will have a few changes on the budgetary forecast.

What we can say also in this regard is when we sell and take the lease back on bare boats vessels, there is an obligation to take a charge in accounting terms for these statutory maintenances which generated last year a big charge for repair purposes. An increase in that respect. So, therefore, in all likelihood, we will have news on these provisions, because we can postpone a few vessels into 2016, and this should lower dramatically provisions for big repairs.

Operator

Once again, if you want to ask a question, press on the star, followed by number 1 on your phone.

We now take the next question, coming from Bertrand HODEE, from Raymond James. Over to you, sir, your line is open.

Bertrand HODEE, Raymond James

Good morning, everyone. I have a question regarding your level of cost controls, which bore fruit in 2014. Could you quantify what you expect in terms of new cost controls, in terms of overheads, of our operating cost for 2015, please?

Christian LEFEVRE, Chief Executive Officer, BOURBON

Let me come back to our cost performance. As you know, we implemented in 2010 an index with some target to reach for 2015. And the target that we wanted to achieve was to move from an index at 100 down to 96. And today, at the end of 2014, we managed to reach an index at 97.2. Therefore, we are nearly at the target of 96. We are not far from it. So, we believe we should be able to achieve it and probably exceed it in 2015.

Bertrand HODEE, Raymond James

I have a second question regarding the utilization rates that you are forecasting for 2015, especially in the deep water offshore segment: traditionally, you were more in of a range between 87 and 92%, do you think that you can be under that range? And we have one last question regarding your guidance on revenues for 2015: such guidance, has it been built with the hedge rate on the euro/dollar at 1.23?

Christian LEFEVRE, Chief Executive Officer, BOURBON

Well, let me answer on the utilization rate. The deep water, we expect a dramatic decline of the utilization ratio, which we recorded already to a certain extent in 2014. It is linked mainly to the fact that there many PSB vessels that were under construction, and this gave rise to a vessel overcapacity. Naturally, thanks to the strategic partnerships that we have with a number of customers, our regional locations, our local partnerships, so thanks to this, we are suffering less than others, and our utilization rates remain however high. But clearly, these utilization rates on the deep water front will be slightly lower in 2015.

Now, coming to your second question, I will turn it over to Nicolas.

Nicolas MALGRAIN, Executive Vice-President & Chief Financial Officer, BOURBON

To answer your second question, sir, let me come back to the hedging factor. What we are saying is that we hedged. Actually, the part of the EBITDA in dollars. So, it is not the full EBITDA but only that share related to the dollar, and that share was hedged at 1.23.

Bertrand HODEE, Raymond James

OK, but the question is...let me put it differently: your hedging policy, did it have any impact on your 2015 revenue guidance? Or in other words, the hedging effects, will these effects be processed as a financial element or will it have an impact on your topline?

Christian LEFEVRE, Chief Executive Officer, BOURBON

Of course, our guidance takes into account that hedging factor which we did on that part on the dollars that we hedged.

Bertrand HODEE, Raymond James

Could you quantify it, please? If we were for example at 1.13, or at 1.15, by how much would your revenue guidance be improved?

Christian LEFEVRE, Chief Executive Officer, BOURBON

I just want to reconcile those numbers relative to our FOREX hypotheses that would be different from 1.23. On this specific aspect, we are just maintaining our 2015 target with a steady revenue or slightly down. We are not giving other elements at this stage regarding the dollar impact, and our goal is an operating margin slightly declining for 2015.

Bertrand HODEE, Raymond James

Very well, thank you very much.

Thijs BERKELDER, ABN Amro

Firstly, companies such as Shell, or clients such as Shell have sent letters to their suppliers demanding price declines by 20% per April 1. Can you confirm that you also received those kind of letters, and can you explain what you are doing to prevent these price cuts taking place?

Christian LEFEVRE, Chief Executive Officer, BOURBON

Yes, thank you very much. I mean, customers are looking for savings, especially when you have strategic partnerships with them. We are in talks with our major customers to review how we could access, how we could accept or not their desire to reduce costs. It could be through a reduction of rates, which we want to see offset by an increase in the term or the duration of those contracts, by vessel. In other words, we are ready to give them some price against volume in exchange. So, this is what we are discussing with our major ones. But also, there are several ways of helping our customers save: better use their vessels. As you know, the consumption of fuel may represent up to 30 to 50% of the total cost of the vessel, so we are working with such customers to better use vessels and bring down the consumption of those vessels.

So, these are the two focal points: on the one hand, granting lower prices against volume, which is the use of vessels, and secondly, work together to reduce or better use these vessels and therefore reduce the consumption cost and logistic cost as a whole.

Thijs BERKELDER, ABN Amro

...CAPEX, I have a follow on question: CAPEX in 2014 for a large part was of course driven by new vessel CAPEX, can you explain what the CAPEX was excluding expenditures for new vessels?

Christian LEFEVRE, Chief Executive Officer, BOURBON

The question is about the CAPEX regarding maintenance in 2014, so let me give you an indication: the maintenance-related CAPEX for 2014 were about 140 million euros. 140 million euros.

Thijs BERKELDER, ABN Amro

Very good. Then, what I maybe misunderstood, but you are expecting new vessel CAPEX of 200 million in 2015, and can you say what you have prepaid already for these new vessels?

Christian LEFEVRE, Chief Executive Officer, BOURBON

The amount of the prepayments amounts to about 150 million euros. 150.

I think we have no further questions. I would like to thank you for attending this conference call, and we will meet again at the shareholders meeting which will be held on May 22nd, 2015.

Thank you very much again and have a very good day.