ROBOTTI
& COMPANY
ADVISORS, LLC

Investment Securities

6 East 43rd Street
New York, NY 10017
(212) 986-4800
Fax: (212) 986-0816

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Dear Client,

Over the first quarter of 2015, our Energy investments continue to languish. Additionally, certain of our core holdings are denominated in foreign currencies (specifically the Canadian dollar and the Norwegian krone - two currencies in which a sizable portion of our holdings are quoted) which continue to decline against the US dollar, compounding our mark-to-market loss. As frequently is the case, we believe these trends are overdone. That said, we are not sure of the timing when sensibilities return, but remain confident that they will. We continue to monitor our positions and look forward to more appropriate valuations and the anticipated appreciation of our investments.

Enclosed is a recent interview with Value Investor Insight where I highlighted several opportunities we see in the energy industry. You may have heard this before, but that's part of being consistent.

As always, feel free to reach out to us if you have any questions or concerns.

All the best,

Bob Robotti

Bob Robotti

March 31, 2015

Value Investor INSIGHT

The Leading Authority on Value Investing

The following excerpt, reprinted with permission, is from a feature interview with Robert Robotti that appeared in the March 31, 2015 issue of *Value Investor Insight*.

INVESTOR INSIGHT

Robert Robotti
Robotti & Co.
"The more prolonged the down cycle, the better competitively it will be for the types of companies I target."

We'd characterize the response of many value investors to the fall in oil prices as interested, but tentative. How would you characterize your view?

Robert Robotti: It makes all the sense in the world that energy is an interesting place to be looking, as almost all companies have been discounted, some appropriately, some inappropriately. The current situation is clearly creating significant investment opportunities that will have very high rates of return.

That said, energy investments are far from homogeneous. Each sub-segment is different and is affected by different supply/demand dynamics, different secular trends, different cyclical trends. It's dangerous to generalize and assume everything is cheap.

Are there sub-segments to which you've gravitated in the past?

RR: Our preference has always been the service side, the picks and shovels as opposed to the producers. The assets on the service side are much longer-lived, as opposed to an oil and gas well that has an average life of five or six years. Producers constantly have to replace their assets, and the best assets are probably depleting the fastest. The difficulty in projecting someone's ability to do that makes investing in oil and gas producers more difficult for me than finding service businesses with identifiable growth drivers that are run by smart people who are disciplined in allocating capital and have long records of success.

Are we hearing you correctly in saying service companies are more predictable?

RR: Through the cycle, yes. They are obviously impacted by the level of energy prices short-term, but in many ways the businesses over time are more predictable. Behind that I will say on the oil-services side that I do believe oil will continue to be difficult to find and that there's no doubt in my mind that $45 per barrel is not the right market-clearing price. That doesn't mean oil prices can't go lower from here, but it does mean I believe oil demand and oilfield activity will get back in a reasonable period of time to where they were a year ago.

Have you been incrementally buying long-time favorite Atwood Oceanics [ATW]?

RR: Actually, no. Offshore-drilling contractors like Atwood minted money over the past three or four years, with the predictable result that too many players in the business built new drillships and semisubmersibles while outdated assets were still being offered for work. It became obvious to us that supply was going to get ahead of demand, so even before oil prices broke down we roughly cut our position in Atwood in half.

The stock has fallen considerably since and looking out on a three to four year basis it's probably very cheap. But the oversupply in the business will remain a very strong headwind and contract rates will continue to decline. The industry needs to scrap its outdated assets and that probably requires consolidation. That would have to happen for us to add back to our position. [*Note*: Atwood shares, above $53 last June, now trade at $28.]

Tell us about a service provider you are high on, Norway's Subsea 7 [SUBC:NO].

RR: Here the supply/demand balance is very different from Atwood's, primarily because Subsea 7's business is far more focused on the engineering, design and implementation of complicated deepwater projects. A primary asset is its 2,000 engineers, who have unique experience and expertise that we believe provides a significant barrier to competitive entry. It's that engineer who figures out in 5,000 feet of water things like where to place the wells, what connectors to have, where to put the risers and how to run the pipeline, none of which is easily done. After merging in 2011 with Acergy, Subsea 7 is now the biggest of the three tier-one players in the world, along with France's Technip [TEC:FP] and Italy's Saipem [SPM:IM], which is controlled by ENI.

Is this business that much less volatile than Atwood's?

RR: You can't get away from volatility in energy investing, but in any given year at least 50% of revenues are going to come from four or five giant projects of major international oil companies. These are often decades-long projects from sponsors with plenty of access to capital, so they are far less sensitive to the current level of oil prices. Where the oil majors expect prices to be three to five years out is very different from where prices are today. That dynamic over time has made Subsea 7's business less volatile.

Another important component of our premise is that deepwater continues to grow as a percentage of the majors' total exploration and production budgets over time. That makes this a growth business with cyclical earnings, meaning we're able to buy very cheaply at various points in the cycle, like today.

The company is also well equipped to turn the cyclicality in the business to its advantage. Over the years second-tier competitors have attempted to break into the first tier only to crash and burn. I believe some remaining aspiring players will not make it through the current difficult situation in their current form. Given its market-leading position and the fact that it has no net debt, Subsea 7 has plenty of flexibility to capitalize on others' weakness and further strengthen its position as the competitive field is further winnowed down.

INVESTMENT SNAPSHOT

Subsea 7
(Oslo: SUBC:NO)

Business: Designs, engineers, builds and installs drilling equipment for energy exploration projects located in most of the active offshore drilling environments worldwide.

Share Information
(@3/30/15, Exchange Rate: $1 = 8.087 NOK):

Price	**NOK 70.55**
52-Week Range	NOK 63.05 – NOK 123.58
Dividend Yield	0.0%
Market Cap	NOK 23.32 billion

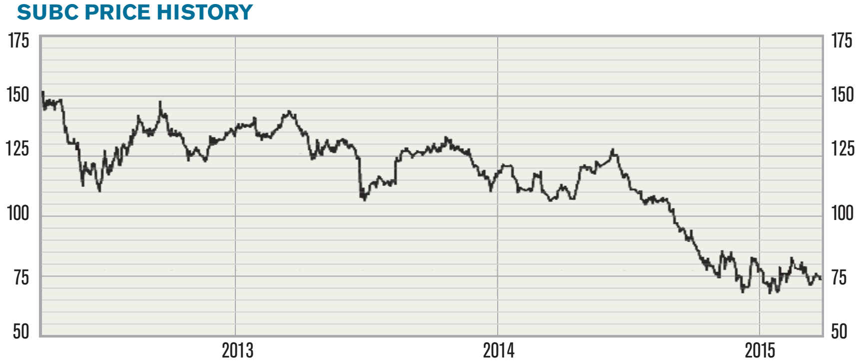
Financials (FY ending 6/30/14):

Revenue	$6.87 billion
Operating Profit Margin	(-3.7%)
Net Profit Margin	(-5.5%)

Valuation Metrics
(@3/30/15):

	SUBC	S&P 500
P/E (TTM)	n/a	20.5
Forward P/E (2015 Est.)	7.7	17.6

SUBC PRICE HISTORY



THE BOTTOM LINE

While the company is not immune to cyclicality, its competitive strengths and the fact that it operates in a long-term growth market argue that its shares are unduly cheap today, says Bob Robotti. At 10x the $3 per share of normalized earnings he expects within five years, the shares would trade at closer to $30, or NOK 240 at current exchange rates.

Sources: Company reports, other publicly available information

How cheap do you consider the shares at today's price of 70.50 Norwegian kroner?

RR: We own most of our shares in Oslo, but the U.S. ADR trades today at around $8.75. Since most of the business is in U.S. dollars, I'll talk in terms of U.S. dollars.

Before a goodwill impairment charge related to the Acergy deal, Subsea last year earned around $2.30 per share. On a normalized basis – say four or five years out – we believe that number is closer to $3 per share, assuming revenue growth at 7-8% annually and that EBITDA margins end up at better than 20%, where they were in 2014. So against our normal earnings estimate the shares trade at less than 3x.

Anyone investing today has to recognize that it may not be pretty in 2015 or even 2016. Producers are still coming to terms with current oil prices and there's no question there could be further pullbacks in exploration budgets. Brazil's Petrobras is a big customer, and its behavior may be unpredictable. But despite the near-term volatility risks, when you look at Subsea 7's balance sheet, the nature of its business, its contracts going forward and its ability to generate cash, we think the investment risk is moderate against an investment opportunity that is very significant.

If we're right longer-term, at a normal point in the cycle a business like this should trade at closer to 10x earnings. If the market recognizes that earnings grow over time and that the next cyclical peak in earnings will be higher than the last one, you could even see multiple expansion.

You put a lot of emphasis on corporate governance and capital allocation. Talk about those for Subsea 7.

RR: The chairman and largest shareholder is Kristian Siem, who has an excellent track record in generating returns both at Subsea 7 and at his holding company, Siem Industries. To give you a sense of management's capital discipline, in both 2012 and 2013 they paid out roughly $200 million in dividends to shareholders. Last year they didn't pay a dividend and I'm very happy they didn't. They're saying they can put the capital to better use in buying back shares, paying down debt or making opportunistic investments. All those things can create much more value to shareholders today than paying a dividend.

For example, if the company took the $200 million per year it has paid in dividends and bought back stock near the current level, we estimate that over the next couple of years that could translate into 70 to 80 cents in incremental annual EPS. At 10x, that's another $7-8 in added share value. With a 20% controlling shareholder, we're confident capital allocation here will be done in our best interest.

To expand on this point, I hear a lot of people these days say in energy that they're looking for companies with attractive and sustainable dividends. That's absolutely the wrong thing to do. In the current environment, there are many more intelligent things to do with capital than pay a dividend. Any company focused heavily on maintaining its dividend is unlikely to be one you really want to own.

Do you spend much time on things like divining OPEC's next move or foreign-exchange rates?

RR: You have to be concerned about all those things, but we don't believe we add a lot of value in making those determinations. We believe the market-clearing price for oil is much higher than the current price. We believe that while it may get weaker before it gets stronger, that the world's economy will grow over time and feed incremental demand for energy. I can make a logical case that the Saudis will conclude that it makes more sense to produce less oil and sell it for a higher price, which would unilaterally drive oil prices higher. But I'm not willing to base investment decisions on things like that.

Which brings me back to finding companies with strong balance sheets, strong market positions and people running them who have proven they know what they're doing through the cycle. In fact, the more prolonged the down cycle, the better competitively it will be for these types of companies. That will make the upside on the other end that much better. VII

Disclosure

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