SUBSEA 7 S.A.

Quarter 3 2015 Results
Transcript

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Speakers:

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Ricardo Rosa, Chief Financial Officer
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Isabel Green: Welcome everyone to our conference call and web cast covering the third quarter 2015. Here with me on the call is Jean Cahuzac our Chief Executive Officer, Ricardo Rosa our Chief Financial Officer, and John Evans our Chief Operating Officer. The full press release of the results can be found on the investor relations section of our website, along with the presentation slides that we'll be referring to on today's call.

In a moment I'll hand over to Jean to open the call but before I do I am obliged to draw your attention to **slide two**, which contains important information regarding forward-looking statements. A similar disclosure is also provided in the press release. I will now hand the call over to Jean.

Jean Cahuzac: Thank you Isabel. Good afternoon everyone and welcome to our third quarter conference call. In a moment I will summarise the key financial and operational highlights, before handing over to Ricardo, who will cover our financial results in more detail. I will conclude with an update on how we are achieving lower development costs for our clients and our view on the outlook for our business. As usual, there will be time to take your questions at the end of the call.

So, let's look at the third quarter highlights on **slide four**. Subsea 7 has delivered another quarter of good results driven by excellent project execution in both hemispheres. These results were achieved in a business environment which remains very challenging as our clients continue to delay new awards and to limit discretionary work. Revenue was $1.2 billion in the quarter, significantly lower than the previous year, reflecting the reduced workload and market conditions. Adjusted EBITDA was $351 million, reflecting good execution and cost management discipline. This included a $36 million charge related to our cost reduction and resizing programme that we told you about last quarter.

The adjusted EBITDA margin of 29% was helped by positive contribution from projects in the final stages of execution. You should not expect us to maintain the margin at this level going forward. Diluted earnings per share of 46 cents were adversely impacted by our decision to scrap Seven Polaris, resulting in an associated impairment charge of $36 million in the quarter.

We ended the period with a net cash positon of $104 million due to good progress on projects, effective cost control and our continued focus on managing working capital. This combined with our $850 million un-utilised credit facilities, puts us in a solid financial position which is particularly important given the uncertain outlook.

Global utilisation was 74%, down from 91% in the third quarter last year. This fall was in line with our expectations. We have begun to stack vessels in accordance with our plan to adapt to the present market downturn. Our active fleet today comprises of 33 vessels down from 39 at the end of the second quarter. To be clear, our reported utilisation rate includes the stacked vessels. We booked $1.1 billion of new awards and escalation in the quarter taking our order backlog at the end of September to $6.7 billion. Market uncertainties make the prediction of future order intake on a quarter per quarter basis very difficult.

The outlook remains challenging as the timing of new awards to the market is uncertain, but we have been proactive in facing up to the challenges and our initiatives position us well to improve our competitiveness and stress on our capabilities through the cycle.

I turn now to **slide five** to talk about our operational performance. Our people both offshore and onshore are doing a great job. Excellent project execution continues to drive good results and has delivered high levels of performance with safety being the priority at all times. In fact, in September we achieved a whole month with not a single reportable incident on any of our vessels, or in any of our onshore facilities and offices. Looking at the Northern hemisphere and Life of Field business in more detail, several projects made significant progress in the quarter. In the UK the Montrose and Catcher projects completed offshore activities for 2015 and the Marina project made good progress with high levels of offshore activity supported from our offices in both Stavanger and Aberdeen.

In Norway the Aasta Hansteen project completed all major fabrication and on the Gulfaks project we completed trenching. In the Gulf of Mexico, the Heidelberg project was successfully completed, and work commenced on the Stones project for Shell. Life of Field activity remained low particularly in the North Sea.

In the Southern hemisphere and Global Project Business Unit, Seven Borealis commenced pipe lay activity on TEN project in Ghana, and the Exxon's Erha North project in Nigeria was substantially completed with first oil achieved in September. The Lianzi, SURF and Topside projects in Angola are almost complete, with umbilicals installed and floor lines prepared on schedule
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In Brazil our 7 PLSV's on contract with Petrobras reported another quarter of high utilisation. I am aware that there has been some speculation that 350 tonne class international vessels operating in Brazil could be at risk of being brought by Brazilian flag alternatives. We are monitoring this risk closely.

I would also like to give you an update on our 550 tonne class new build PLSV Seven Rio.

In April this year we signed a two-year contract for Seven Seas with Petrobras. However, these vessels had already been located to work on the Stones project in the Gulf of Mexico. We agreed with Petrobras earlier this year that in order to make Seven Seas available the new built Seven Rio would work on the Stones project, before mobilising to Brazil to start her five-year PLSV contract. Towards the end of the quarter Seven Rio joined our fleet and she will transit to Brazil once the work in the Gulf of Mexico has been completed.

Moving to **slide six** to look at our backlog, we ended the third quarter with an order backlog of $6.7 billion after taking account of an adverse foreign exchange movement of approximately $400 million resulting from dollar strengthening. New awards and escalation for the third quarter totalled $1.1 billion. Key awards included the first phase of West Nile Delta domestic gas project for BP, and that is offshore Egypt. This contract is the largest we have been awarded in 2015 at the value of approximately $500 million, and significantly strengthens our presence in Egypt**.** In October we announced a second smaller contract in Egypt, called the East Nile Delta Project for Pharaonic Petroleum Company. The Pharaonic project is not included in our backlog announced today as the award was confirmed after the quarter closed.

Subsea 7 has the experience, expertise and technology that enable us to submit cost-effective and highly competitive tenders. We have strong client relationships with a high degree of trust and collaboration which facilitates new ways of working and early engagement. Our alliances have got off to a good start. Although it's early days we have already engaged in a series of studies for clients through our alliance with OneSubsea including paid field work. We are also working on a number of projects with our engineering alliance partners KBR/Granherne. I will talk more about the market and output later, but first I will hand over to Ricardo to talk about our financial performance in more detail.

Ricardo Rosa: Thank you Jean. Good afternoon everyone. Let's first look at the income statement highlights on **slide eight.** Third quarter revenue of $1.2 billion was down 37% from the prior year period, which reflected lower offshore activity levels in both business units compared to 2014. Adjusted EBITDA was $351 million for the period and included $36 million in charges relating to the implementation of the cost reductions and resizing program. The adjusted EBITDA margin was 29%, up seven percentage points on the prior period, and reflected good execution and positive contributions from projects that were nearing completion or were completed in the quarter. Net income of $145 million included a $36 million dollar impairment charge relating to our heavy construction vessel Seven Polaris, which will be scrapped. Diluted earnings per share of 46 cents reflected the progress we have made on anti-dilutive measures with 347 million weighted average shares an issue, compared to 373 million in the prior year period.

Slide nine looks at the income statement in more detail. Administrative expenses of $89 million were $3 million higher than the prior year quarter as lower personnel costs were largely offset by $23 million in resizing charges. The remaining $13 million in resizing charges were included in operating expenses. Net operating income was $214 million after deducting the $36 million charge for the impairment of Seven Polaris, and included a $33 million contribution from joint ventures and associates. This primarily related to Seaway Heavy Lifting which had high levels of offshore activity in the quarter. There was a net foreign exchange gain of $23 million from functional currency movements reported within other gains and losses. The tax charge for the quarter was $96 million, an effective tax rate of 40%. The increase in the rate was in part attributable to the relatively low tax benefits associated with the resizing charges and the Seven Polaris impairment in addition to non-cash adjustments to deferred tax.

Moving on to **slide ten,** let's look at the results of each business unit. Activity levels in both Hemispheres were significantly down on the prior year period. The Northern Hemisphere and Life of Field Business Unit generated revenue of $510 million and net operating income of $80 million in the quarter, down 46% and 18% respectively compared to 2014. This reflected reduced activity levels and lower vessel utilisation particularly in the North Sea, partly offset by savings generated through our cost reduction programme.

In the Southern Hemisphere and Global Projects Business Unit, third quarter revenue was $670 million and net operating income was $185 million down 30% and 12% respectively on the prior year period. The 28% net operating income margin reflected successful completion of certain projects. This included, among others, the Gorgon Heavy Lift and Tie-Ins project, offshore Australia, as well as significant progress in executing the offshore phase of the TEN project, offshore Ghana, and good operability of the PLSVs in Brazil.

The $51 million dollar third-quarter net operating loss reported in our corporate segment included the $36 million in resizing charges and the $36 million impairment charge on Seven Polaris, partly offset by the improved contribution from Seaway Heavy Lifting compared with 2014.

I now turn to **slide 11** which provides an overview of cash flow for the nine months to September 2015. Net cash of $104 million at the end of September represented an improvement of $255 million on the position at the end of the second quarter. $409 million in net cash was generated from operating activities in the period, in part due to the levels of profitability achieved, and in part due to a net $96 million increase in net operating liabilities, mainly as a result of reduced client receivables.

Over the nine-month period, net cash generated from operating activities was $628 million despite a $99 million decrease in net operating liability. As we have previously highlighted, we expect a partial reversal of our negative working capital position, in line with declining lump sum contracting activity. To date this year, we have mitigated the impact of this reversal through continued tight management of working capital. Nevertheless, our negative net working capital position will continue to diminish as a result of lower activity, and we have factored this into our liquidity projections.

Net cash flow used to date in investing activities including $548 million of capital expenditure, most of which related to the construction of the vessels in our new build programme. Net cash used in financing activities amounted to $33 million, and primarily related to repurchases of our convertible bonds at favourable market rates. We did not repurchase any shares in the quarter, but in line with our emphasis on actively managing shareholder equity we cancelled 4.8 million shares which had been held in treasury.

Our financial position remains secure, underpinned by a strong liquidity profile. We have cash and cash equivalents of $657 million at 30 September, and over $850 million in undrawn credit facilities negotiated on favourable terms. Our borrowings of $553 million at quarter end related to the amount outstanding on our 2017 convertible bond, net of its equity component, and with net of cumulative repurchases totalling $117 million at par value. An additional $10 million in bond repurchases were executed at market rates in October.

As shown on **slide 12**, investment in our new build programme was $419 million in the first nine months, including $157 million in the third quarter. The forecast spend in the fourth quarter is $156 million with $265 million forecast for 2016. Some of the payment milestones have been rephased compared to previous guidance, but overall, the expenditure remains on track to complete in 2016 with a total programme spend of less than $2 billion.

I turn now to **slide 13**. Construction of the new-build vessels is progressing well. Seven Rio joined our fleet in September. Seven Sun and Seven Cruzeiro, which are also being constructed to serve long-term contracts with Petrobras in Brazil, are forecast to be delivered to us by the Dutch shipyard in the second and fourth quarters of 2016, respectively. Our vessels under construction in Korea, Seven Kestrel and Seven Arctic, are expected to be delivered in the first half of 2016.

Slide 14 sets out our financial guidance. For 2015, we continue to expect revenue to be significantly below the record level reported last year. But, reflecting the results year-to-date, we now expect our EBITDA percentage margin to increase.

Administrative expense is expected to be in the range of $310 million to $330 million and includes a $40 million resizing charge recognized in this cost line.
Our next finance income is expected to be between $5 million and $10 million and improvement on previous guidance, mainly as a result of our improved cash position.
Depreciation and amortization for the full year is guided to be between $410 million and $430 million, excluding impairment charges. Our effective tax rate range has been raised from the 31% to the 33% we previously guided and is now 33% to 35%. This revised range reflects the impact of the tax treatment of the estimated $140 million charge in relation to the cost reduction and resizing programme as well as the impairment charge relating to Seven Polaris.
Finally, our CapEx guidance for the year has been updated to reflect the revised phasing of the new build programme and lower sustaining expenditures.

Looking ahead to next year, we expect the environment to remain challenging, with lower levels of offshore activity and fewer projects progressing to their offshore phase. With fewer large projects reaching completion in 2016, it is unlikely that the financial benefits of good of execution, risk mitigation and commercial close outs will be as significant as we have seen so far in 2015.

Our cost reduction programme is on track to deliver approximately $550 million of annual cost savings but we do not expect this fully to compensate for the decline in activity. As a result, our guidance for 2016 is for both revenue and adjusted EBITDA percentage margin to decrease significantly compared to 2015.

I will now pass you back to Jean to comment further on our continuing cost reduction measures, our initiatives in response to the current market and our outlook.

Jean Cahuzac: Thank you Ricardo. Moving to **slide 16**. We have taken a number of steps to ensure Subsea 7 can develop and strengthen through the downturn and be ready to take the opportunity to grow when market activity recovers. We were early to recognize the pressure on project returns for our clients and started to reorganize and downsize our capacity in 2014 with the result that when the oil price halved last year we had already embarked on the changes necessary to lower our costs.

The new organisation structure we implemented at the beginning of this year is delivering results and supported the cost reduction and resizing programme that we announced in May. We are working more closely than ever with our clients and suppliers to identify better ways of working. Our alliance with KBR/Granherne and OneSubsea are opening up new opportunities for us with clients and we are already seeing tangible results.

Along with early engagement, technology is a key element in our drive to lower the costs of development and we remain committed to investing in new technology. We have a substantial intellectual property portfolio and one of the largest and more recent groups of patents in the SURF and Life of Field market.

In October, we were proud to be presented with a distinguished achievement award by OTC Brazil, recognising the technological innovation inherent in our supported Riser solution that was used on the Guará-Lula project.

These measures, along with our simplified processes and fit-for-purpose approach, are enabling projects to proceed in a lower price environment and affirming our position as a leading provider of subsea services for our clients.

On slide 17, to give you a more detailed update on our cost savings plan. We are reducing our capacity in line with the lower levels of market activity. The changes we are making are on track to complete early in 2016 and we will deliver annualised savings of approximately $550 million. Our headcount resizing applies to our offshore and onshore people, globally at all levels of seniority, but we are still retaining the expertise and experience that make us a preferred partner for our clients.

Our fleet resizing has made significant progress this quarter with our active fleet reduced to 33 vessels down from 39 at the end of June. We have returned one of our chartered vessels and we have stacked six owned vessels including Seven Polaris, which will be scrapped. We expect to complete the planned 12 vessel reduction by early 2016, with three more chartered vessels going back to their owners and two more owned vessels to be stacked, after they have completed the project they are currently working on.

Once this is done, and once the remaining four new vessels are delivered, we will have an active fleet of 32, containing some of the most capable and high-performing vessels in our sector.

Turning now to **slide 18**. Our line objective to lower the project costs are changing the way we are working with our clients. We are engaging earlier, collaborating more and being increasingly open with each other. This will drive solutions that facilitate project function at lower oil prices.

Subsea 7 has a reputation for being fair, open and straightforward. This has enabled us to forge new relationships and, in the case of some of our independent clients, this has led to long-term agreements to provide support on an exclusive or a preferred supplier basis. This collaboration brings mutual benefit. We are working more closely together to drive down costs and develop better solutions, from the concept engineering phase and our long-term agreements mean that we will execute these projects when the time comes.

We have been working this way with Centrica in the UK for some time and at the end of October we signed a further agreement with Centrica in Norway. We are commencing fieldwork for Centrica's Butch project, our alliance partner, Granherne, and are confident that our solution will enable Centrica to achieve FID in due course.

We have signed a similar arrangement with Premier last week. It covers early phase engineering and CapEx, OpEx and decommissioning activities in the UK, Southern Atlantic and Norway. What's more, we also have an agreement with MOL to work together on their North Sea requirements.

Our agreements to work closely with our clients in this way are only possible because of the high level of trust and transparency between us. This is something that has been based over years of working together and we are privileged and proud to be able to partner with our clients in this way.

To sum up, on **slide 19**, I would like to offer some comments on the outlook. The market remains depressed as a result of sustained low oil price. The tendering activities are competitive and the timing of new awards to market continues to be uncertain. In the Northern hemisphere, there are few short-term new opportunities in the North Sea and it has been particularly impacted by the downturn due to the structurally high development costs. This has also impacted our Life-of-Field business as clients hold back on non-urgent maintenance expenditure.

The outlook is better in the Gulf of Mexico with active tendering there, including Mad Dog 2 and Hopkins, both for BP, expected to be awarded to market next year.

In the Southern hemisphere, the timing of large project awards is still very difficult to predict but the number of projects are expected to progress in 2016. These are mostly gas projects, particularly for domestic markets as these are less affected by the oil price. Altogether we have listed some of the active market opportunities, which include Bonga South West, Coral FLNG, Rotan, Golfinho, Vashishta and West Nile Delta Phase 2.

So, to conclude, times are challenging but we are acting on what we can control. I strongly believe that the initiative that we started to take as early as 2014, combined with our proactive cost-reduction measures will allow us to navigate through the downturn while building a stronger company for when the business environment improves.

We are concentrating on finding cost-effective solutions which enable our clients to progress with deep-water field development. We have already identified significant savings and with collaboration with our clients and suppliers, we can deliver more.

As we have shown in our results today, we are focused constantly on safety, executing projects well and maintaining our secure financial position. Finally, another important point in the current business environment, we will remain disciplined to maintain the right risk profile when bidding for new projects.

With that, I would like to open the call for questions.

Fiona Maclean (Merrill Lynch): I have a couple of questions to start with. First of all, your balance sheet is incredibly strong, especially given where we are in this downturn. I'd like to focus on the outstanding convertible bond that is due in 2017. Ricardo, could I get your thoughts on how that bond is going to evolve over the next couple of years and what your thoughts are? Will you just repay it or will you look to refinance it? And my second question is around your joint ventures. Seaway was very strong in the quarter. I was hoping to get some clarity on exactly what that joint venture has been doing over the last few months and if you can provide any clarity around what the various joint ventures are going to be working on in 2016, thank you.

Jean Cahuzac: Thank you Fiona. Ricardo will answer the first question and then John Evans will cover the challenge with joint ventures.

Ricardo Rosa: With regards to your question on the convertible bond, you will have no doubt noticed that we have been purchasing on a relatively regular basis bonds that have come available on the market at relatively stable market prices, and we look effectively to see what the yield-to-maturity is compared to the coupon on the bond, and to the extent the liquidity allows us, we will continue to do this. As you know, we have very much a strategy of avoiding further dilution to our shareholders and our liquidity projections and our liquidity management targets redemption of the bond with no necessary replacement of it by a similar instrument. The reason that we're looking to repurchase earlier than planned is that the bond represents a relatively large balloon payment in 2017 and it is our strategy to where possible/to the extent possible smooth that repayment profile.

John Evans: I'll cover off with Seaway Heavy Lifting, Fiona. We have a mixture of renewable work and oil and gas work in the Seaway Heavy Lift portfolio. In quarter three, we worked down in Venezuela for ENI on the Perla project and we completed a project in the former Soviet Union for a client there, which again took assets out of the North Sea. We also completed some work for Gaz de France and Cygnus Field. Moving into next year, the portfolio swings back more towards a renewable based portfolio due to the lack of oil and gas work coming into the North Sea at that time.

Phillip Lindsay (HSBC): Two questions please. The first one is just really about the sort of current contractual negotiations that you're having. So, presumably, your customers are trying to force harsher terms and conditions onto the supply chain and I'm sure in desperation we'll see some players, you know, drop the level of contingency that they're prepared to bid with. But, clearly if the industry buckles on some of this, there's potential for a lot of turbulence in terms of P&L in the future. So, what was the current state of play there and how are your customers and your competitors behaving?

The second one, change in tack. Just about some of these collaborations. So, we've seen a rival collaboration Forsys back a few FEEDs. You know when you are working on something with Aker in Equatorial Guinea. But I'm just interested to hear how your collaboration with OneSubsea and KBR is going in terms of, firm leads and firm prospects. I know you've got some early stage stuff, but what are your expectations for something more concrete or something more substantial appearing in your backlog, say, in the next 12 months or so?

Jean Cahuzac: I will take the first question on the contract strategy and will let John comment on the alliance. Just want to mention on the alliances we had a very good start, we are seeing a lot of interest, but John will elaborate a little bit more on that.

Regarding the way we look at bidding the projects, I would say the approach is discipline, discipline, discipline. Yes, we are under pressure on the margin and that's expected in the current business environment, so there is pressure on margins. More on small projects than large projects, but however pressure on all projects margins. But what is important in this business environment is to remain disciplined in terms of risk management. We haven't changed our approach in terms of contingency evaluation and we are accepting terms of conditions which can be accepted and we won't go beyond. So, we are not changing the way we operate our risk profile today, we manage our risk profile into the environment. I think it is absolutely key to continue to execute in the way you've seen us executing in Q3.

John Evans: As Jean says, we've seen keen interests from our clients on both alliances, as you'll see in the announcement with our Centrica Norway work. Our partner Granherne will work with us on the FEED work for that field, and hopefully if that project moves ahead to FID we would expect hopefully to pull that work into Subsea 7. So there are certain examples there where we are working with our clients re-engineering their fields, looking at the whole picture from their viewpoint and then taking that work hopefully into FID.

On the OneSubsea we have a lot of interest from clients on that, and at the moment we are doing some paid and non-paid studies associated with that type of work. So again, its early days in that relationship, but good feedback from our clients and a lot of interest in what we're doing.

Amy Wong (UBS): I had a couple of questions please. The first one is on your PLSV fleet in Brazil. I appreciate that you're flagging some risk or some chatter in the market about a potential Brazilian flag vessels displacing international vessels, but outside of that, can you give us some insight into some of the ongoing charters you have with Petrobras and if there are any negotiations with them to use any form of renegotiation, reduction or kind of 'blend and extend' strategy on the PLSV fleet?

And then my second question is fairly simple, just on 2016, knowing what you know about the geographical mix – tentative geographical mix of profits, can we get some guidance for the tax rate please?

Jean Cahuzac: I will take the first one. We don't have presently discussion, commercial discussion with Petrobras on renegotiation of existing contracts. We always keep monitoring the situation of the market in Brazil, very closely, as you can imagine, but that's where we are. Regarding the tax, Ricardo?

Ricardo Rosa: I think we highlighted the impact the resizing charge and the Polaris impairment had this quarter and effectively on full year 2015. We haven't provided specific guidance on 2016 effective tax rates and it would be premature to do so. As a general comment, though, I would remind you that our effective tax rate is the aggregate of the taxes that we pay in the various jurisdictions where we operate. And, obviously, the tax burden varies from jurisdiction to jurisdiction, so it is affected by the movement in levels of activity across those jurisdictions. I think what you need to bear in mind is that there are certain jurisdictions, particularly in Africa, where the tax charge is linked to revenue as opposed to taxable income and this does have an impact on our effective tax rate in periods of relatively low PBT.

Christyan Malek (Nomura): Two questions please. First of all, in terms of just to quantify of where Subsea margins can move to next year, but in terms of your pricing strategy, given then the point was raised earlier that it will become more competitive or already has been, how will you manage the risk versus price on projects going forward? And if you tie that against potentially risking low utilisations, what is the sort of order of priority there, utilisation versus risk and within that price? And the second question, just going back to the PLSVs, in terms of the contract terms, are they being renegotiated or cancelled with Petrobras, plus some of the contracts that you've signed earlier on, or are Petrobras willing to commit to the full life of the contract?

Jean Cahuzac: To answer your question on the new build, there is no indication of any change of the approach from Petrobras on the fact that these contracts are firm and are five years.

Regarding the price on the project, the way we look at the price of the project, we consider two things. We are looking at solutions with clients and suppliers to make more projects fly and that's what we refer to with early engagement, finding new way of working, introducing technology when it makes sense on projects to lower the cost of the projects so that we can actually have more projects coming to market and some of them coming to us. So, we are working on this area. The second thing which I'm confident with is that we have already achieved a significant reduction of our internal cost through the cost-cutting, through the reorganisation, the different way of working. So, we are more competitive than we were maybe some time ago in this business environment, which is positive.

As we have mentioned before, part of the project cost includes contingencies and factors of provisions for risk and we haven't changed our approach there. As you mentioned it, there is pressure on margins. And that is the question of tactic, depending on the timing of the project, the duration of the project, the level of competition that we have and we can go to a position of being very aggressive. It's a question of finding or filling a slot between two contracts for utilisation. When you talk about longer term projects we expect to have a certain level of revenue which is justified by the length of the project and when it will take place. So there is no silver bullet which is there is one recipe; it is tactical. But when you look at what we have achieved over the last couple of months and, I would say, since the beginning of the year, I think we are competitive, acceptable level of risk, lower margin because that's what the market dictates, but I'm pleased with what the team has achieved over recent months.

Mukhtar Garadaghi (Citigroup): A few questions from me. Some of the projects and some of the tenders that have been ongoing for some time, just thinking about Bonga and maybe East Africa, and even Indonesia, how are you seeing the cost in terms of this scale of deflation over the last let's say 12 to 18 months? How much smaller are these projects becoming? Just thinking about your scope.

My second question: just in terms of your performance this quarter, could you quantify this sort of one off benefits from the sort of project completion that you were getting just to understand this sort of normalised level of profitability for this level of revenue? And finally, just a quick one for Ricardo. How much working capital deterioration could we expect over the short term? .

Jean Cahuzac: I will take the first question and let Ricardo answer on the last two. Well, when you look at top of the cost of projects, in particular the large projects, what we are able to achieve today through the engagement that we referred to before, is actually do the same amount of work for less. So if you take a very large project, if you take a project like Bonga, our scope has not necessarily been reduced in the discussion that we had with the operator. What we have done is found ways to do it at a lower price for the operators through innovation, engineering and conversations with suppliers. For these projects to go ahead, however, there are other factors or questions which need to be raised, which is the other scope of the project like the FPSO, what are the agreements in terms of the local content with the government, etc. So, we are playing our part, there are other cards which need to be put on the table before these projects to go to FID. And there is no one answer for all projects, it depends on a project by project basis. But I am very encouraged by what we can achieve on what we can control in terms of cost reductions with our clients and our partners, suppliers.

Mukhtar Garadagh: When you're saying your scope hasn't reduced, so a potential award size on SURF, on a given project, like in Bonga for example, to Subsea 7 hasn't gone down, what is the total return expected on this award?

Jean Cahuzac: No, the technical scope hasn't changed; we will do the same for less. So our costs are lower, because we have more effective solutions on the standardisation, on the engineering side, etc., so that we can actually deliver to the clients the same scope – same technical scope for a lower price. But what I meant by that is that the amount of work has not been reduced, we can do it for a lower price. And then you have the margin side, which has to be adjusted to the market but, I mean, the work is still intact.

John Evans: One way of maybe looking at it is the input and outputs are clear from our clients and we've been in a discussion about the input and outputs they're trying to achieve in their fields and how we achieve from point A to point B are the discussions, is what Jean is making clear here.

Ricardo Rosa: Turning to the question of working capital and the level of deterioration that we're going to expect, because there are so many variables that go into our working capital, there are issues of timing, of milestones and milestone payments, timing of supplier billing and payment of suppliers, progress during a particular period, it's very a complex task to model with a high level of precision where working capital is going to end up at the end of a particular quarter. So we make medium term trends. And I think for 2015 we had indicated previously that we didn't expect working capital to deteriorate more than $300 million in 2015. To date, we have seen a deterioration of approximately $100 million, at one point we were already above $200 million, so I hesitate to give you a precise figure other than those reference points that I've mentioned.

What I would say is that we are very conscious of the importance of managing working capital well and we are very focused on ensuring proper collection of our monies from our clients. In addition to that, we have a back-stop in the form of our liquidities structures which includes a revolving credit facility of $500 million. Now I wouldn't expect to draw down fully on that revolving credit facility, but if we have an adverse movement that liquidity instrument is available to us at very, very short notice.

Jean Cahuzac: Without coming back to working capital, I think one of the things which we've been focusing on through the whole organisation is the focus on cash management, not spending cash when we don't need to do it, costs, but also working with our clients and suppliers to optimise the flow of cash. So, it's one of the priority and we are seeing progress in this area, which is reflected in some of the numbers.

James Evans (Exane BNP Paribas): Obviously some good success from collaborative relationships with the E&Ps, do you expect to see more of these types of agreements over the next six to nine months as this sort of theme of collaboration spreads? And secondly, maybe a slightly more technical one for Ricardo, or maybe a cost-driven one. Obviously in your backlog we've seen lot of negative FX impacts to over the last 12-15 months, so about 15%-20%. What's happened to your cost base line because this adverse FX over the last – say, since 2014?

Jean Cahuzac: To answer your question, you know, the key word in this partnership is collaboration and the solution that we put in place is tailored to each client who may have different approach. There is not one model which fits all but we have demonstrated that we can adapt to the optimum solution with the number of clients and we'll do more in the future.

Ricardo Rosa: Picking up, James, on your question regarding the FX impact on our backlog. First comment I'd make, of course, is that backlog is only one side of the story. Its projected future activities, so it's not had a direct impact on our financial statements to date. Now we've all seen the strengthening of the dollar against virtually all currencies in the past 12 months and that inevitably affects our backlog to the extent that it's a multi-currency backlog. From an economic standpoint, our strategy is to hedge organically our revenues and our costs, to the extent that our revenues come down in dollar terms, our projected revenues come down in dollar terms, you can assume that our projected costs will come down in equal measure, so that the economic impact net is minimal to neutral.

Rob Pulleyn (Morgan Stanley): Just back on the PLSVs in Brazil, if I may. Could you please add a little bit more colour on how the demand/supply picture is for these types of vessels in Brazil i.e. does Petrobras have enough work for all of the PLSVs there/contracted? And, sort of, the second part of the question, is the specification of your new PLSVs different, and does that matter versus the two Brazilian-flagged vessels which we understand are rolling off?

Jean Cahuzac: There is no doubt that Petrobras has a very healthy volume of activity for the PLSVs in the years to come, but as every oil company today, Petrobras is also managing their cash, and we don't really have any exact figures on how they're managing these cash-prioritising projects. But flexible figures, parts installation, maintenance, works on these flexible pipe installations are absolutely key for Petrobras, so there is no doubt in my mind in the future activity with remain quite high one the PLSV side. What Petrobras will do short term, we'll see.

Regarding the new builds, they are 550 tones new build vessels, the tension of the towers is 550 tones, and the locally-built PLSVs are 300-350 tones and therefore cannot replace the 550 tonnes for the activity.

Rob Pulleyn (Morgan Stanley): So there maybe some movement in the PLSV fleet with older vessels making way for those Brazilian-flagged vessels, but on the like-for-like capability, your new builds – that seems less of a threat. Is that a fair conclusion?

Jean Cahuzac: Yes, it is a fair assumption at this stage.

Haley Mayers (Barclays): Just very quickly, if the utilisation on the fleet including the stacked vessels is 74, am I to take that means the underlying active fleet was, mid-90s utilization? And then also, I suppose, knowing what you do about 2016, how do you expect that utilisation to change based on that 2.8 billion backlog for 2016 execution? And then, following on from that, how do you think about specific metrics that you're watching in order to adjust capacity further than you already have in terms of utilisation?

Ricardo Rosa: We have calculated our vessel utilisation percentage for Q3 on a consistent manner with prior quarters and the prior financial years. And you know, we believe that consistency is an important feature in our communication with our investors. So we haven't specifically called out the impact of vessels that today are stacked. We believe that there is, however, sufficient information in what we issue that you and other analysts and investors can make a good guess. We are considering for future quarters the possibility of including an additional metric that carves out deactivated vessels or vessels that are deactivated long term i.e. coldstack. As far as utilisation going forward is concerned, I will hand it over to John on that point.

John Evans: We went through a process earlier this year which we communicated to the market of resizing our fleet and that resizing was around what we saw in our future as being the workload that we would have. So the aim has been to tailor the capability of our fleet and the sizing of our fleet to what we foresee coming in 2016, and that's the way we've approached it. So we have released back to charter owners, as well as stacked vessels that mean that what is left we are looking to put to work in the next couple of years in the market. So that's the way we've approached it and that's the model we're trying to follow.

Jean Cahuzac: For the active fleet, you can expect as usual that utilisation will vary during the different quarters, and will be lower during the winter period than the summer, as we have seen.

Haley Mayers (Barclays): Given that you came with of your resizing earlier in the year and markets have changed since then, is there anything that we should know regarding expectation around utilisation versus your previous plan?

Jean Cahuzac: It's difficult to predict what will exactly happen next year, things can change either way very quickly, and we will adapt to any change.

Michael Rae (Redburn): My first question is, just to ask, Mukhtar's question again, which is can you give any colour on how big the influence of project closeouts was in 3Q, and is it very roughly right to think of it as being aligned with the working capital move of $90 million, Q on Q? And then the second question, a bit of a boring one, but can you give me a steer on where depreciation will be next year? Because I think it depends a bit on when the new builds actually enter the fleet, but is a figure of roughly $470 million ballpark correct?

Jean Cahuzac: On the first question, as is always done, we are not commenting on a specific project by specific project. The only thing I can say is that Q3 results are a combination of excellent execution and timing of the projects, and I think you have the list of the projects which have been completed or are close to completion during the quarter. But I don't want to comment on project by project basis.

Ricardo Rosa: Michael, I'm afraid that as far as 2016 is concerned we have not provided any guidance. We think it's premature and we'll do so in the next quarter.

Andrew Dobbing (SEB): A quick question on project progress. You've got quite a lot of North Sea projects which are executing at the moment. Is it fair to assume we're not going to see much progress on those projects between now and the end of the winter season in Q1, I guess the end of Q1 next year? That's the first question.

And secondly, I've noticed that, just a small thing, but progression has gone backwards on the Lianzi Topsides project: I think it was 85% at the end of Q2 and it's gone down to 80%. It's only a small issue, but I'd be curious to understand what was happening there.

John Evans: Two things, as we mentioned in Jean's narrative, you know, the large projects in the North Sea have completed for the season. We've completed the bulk of our work in the season, and as we expect to go into a quieter period in Q4 and Q1, which is what we expect in the North Sea. On Lianzi we have had some more work from our clients to extend some of the topside modification work that we do into Q4, and potentially into the very first part of Q1, which therefore means the size of the contract has changed and therefore the POC [percentage of completion] was adjusted.

Andrew Dobbing (SEB): So I guess that would account for some of the non-announced orders in Q3?

John Evans: It's part of it, yes.

Andrew Dobbing (SEB): One more question if you've got time. Can you give us any idea of the split, the US Dollar/Real split on your PLSV contracts? It would be quite useful to understand that in modelling the kind of revenue outlook for the PLSV contribution going forward.

John Evans: Andrew, that question is pretty granular. However, what I would say is that the split of contracts such as ours have been effectively established by regulation in Brazil, and in general they're in the order of 35%:65%, or thereabouts. And I repeat what I mentioned earlier, we target from a hedging perspective, to match our non-US revenues with our non-US costs. So from an economic exposure perspective, we're in pretty good shape.

Andrew Dobbing (SEB): So that's 35 to 65% of the day rate is in – is in Real?

Ricardo Rosa: 35 of 100%, 65% is the dollar portion.

Frederik Lunde (Carnegie): Just wondering what happened to the test drill in the Arctic? It seemed to be delayed by about a quarter. Is this something that you have initiated or is it the yard and do you look at further delays?

John Evans: All we're doing there is just trying to make sure the timing of these vessels coming into fleet ties in with when we want to put them to work. So we are working with yard just on fine tuning the timing there, Frederick.

Frederik Lunde (Carnegie): Very good. And, one more question if I may, on the guidance. What are you trying to tell us; significant declines? It's a very vague wording.

Jean Cahuzac: Well it's a bit early to give a bit more precision for 2016. I would just say that 2016 consensus, the way we read it, is consistent with our comments.

David Farrell (Macquarie Securities): There are two quick questions. Firstly, you were obviously fairly successful in winning order intake during 3Q, and you said during the Q&A that in some part that was down to being cost competitive due to the cost cuttings that you brought through. Your two major peers are a bit behind you in that regard, but do you expect them to win more going forward as they bring through their cost cutting initiatives and become more cost competitive? And then secondly, in terms of the Life-of-Field in the North Sea. In your projections of looking into 2016, do you expect that to come back?

Jean Cahuzac: Regarding the project that we won, I mentioned two points. I mentioned both cost, we are more cost competitive because of cost reduction. I will let our competitors answer your question and see what they can achieve in the future. I want to stress another point, however, that there is pressure on margins in this business. I'm not saying that the cost reductions compensate for everything.

Jean Cahuzac: It's a bit early for 2016. We've seen reduction of activity in 2015. Future will tell what happens in the North in 2016. What's sure is that the field needs to be maintained, so although the activity has been going down there is a limit to the reduction which can be done while continuing to maintain production and the safety of the operations. We can take one more question.

Morton Nordstrom (Nordea): Yes, good afternoon, all my questions have been answered but I didn't quite catch your answer on Frederick's question regarding your 2016 comments in the report. If you could just repeat that that would be helpful, thank you.

Jean Cahuzac: What we are saying is that we are not giving guidance for 2016 more than what we've given in the announcement. Same as every year, it's too early in Q3 for us to give more precise guidance on 2016. What I mentioned is that 2016 consensus, we believe, is consistent with our comments. The way we read the 2016 consensus seems to be consistent with our comments in terms of reduction of results.

Jean Cahuzac: I just would like to thank everybody for participating to this call, and looking forward to meeting with you in future and for the next analyst call. Thank you.