SUBSEA 7 S.A.

Subsea 7 S.A. Quarter 4 & Full Year 2014 Results Transcript

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Speakers:

Kristian Siem, Chairman
Jean Cahuzac, Chief Executive Officer
Ricardo Rosa, Chief Financial Officer
John Evans, Chief Operating Officer

Jean Cahuzac: Good afternoon, everyone. I will start by summarizing the main elements of our full-year and fourth quarter 2014 performance before handing over to Ricardo, who will cover the financials in more details. I will then conclude with some observations on the market and the outlook for our business in 2015 before opening up the line for your questions.

Let's look first at the highlights on slide five. We have had a good year with good underlying financial performance. Revenue of $6.9 billion and EBITDA of $1.4 billion was driven by high levels of activity in all four of our territories as we completed several sizeable and complex projects.

Life of Field activity remained steady as clients continue to value our efficient and safe service delivery. We achieved 82% vessel utilization with strong operational execution. In the seasonally slower fourth quarter, utilization was 68% compared to 80% in the same quarter in 2013, and we used this quieter period to carry out regular maintenance on vessels.

Our fleet renewal program is on track, and the first six of our six new vessels, the Seven Waves, successfully started operation ahead of schedule in May under a long-term PLSV contract with Petrobras.

Moving now to the financial highlights on slide six. We generated almost $300 million adjusted EBITDA on $1.4 billion of revenue in the fourth quarter, giving a 21% margin. This was driven by good progress on projects, including Guará-Lula, where we completed the offshore phase, enabling a further $16 million reduction to the full-life project loss provision taken in the previous years.

As a result, adjusted diluted earnings per share was $0.61, up from $0.23 in 2013. The goodwill on our balance sheet resulting from the combination in 2011 was impaired by $1.2 billion in the quarter due to the change in near-term outlook for the oil service industry resulting from the lower oil price. This non-cash, non-recurring impairment charge is excluded from our adjusted EBITDA and adjusted earnings per share.

For the full year, our revenue and adjusted EBITDA reached record levels, with positive contribution from each of the four territories in each of the four quarters. Lower tax and interest charges and a reduction in weighted average shares converted into full-year adjusted diluted earnings per share of $2.32.

Reflecting challenges facing the oil industry in the near to medium term and in order to preserve our financial flexibility so that we can benefit from opportunities which may arise during the downturn, the board has decided not to recommend a dividend in respect of 2014.

Returning to operational performance on slide seven. We have made significant progress on several large and technical-rich projects this year, demonstrating our expertise in managing and executing complex projects worldwide. I wish to take a moment to talk about some of the key ones in a little more detail.

As I mentioned earlier, we successfully completed the offshore phase of Guará-Lula offshore Brazil in the fourth quarter with the last of the 27 risers installed in December. Only low-risk final commissioning work is left to complete in 2015. The project demonstrated successfully the application of new technology with our innovative, cost-effective riser design and reeled corrosion-resistant pipe. Petrobras is very satisfied with the final results. Setting aside the overall financial outcome, we are proud of the turnover achieved by the project team in 2014, enabling the release of $100 million provision through the year as the project has been substantially de-risked.

Significant progress was made on the Gorgon heavy lift and tie-in project for Chevron offshore Australia. This project included some of the heaviest and deepest subsea lifts in our company's history, enabled by the capability and versatility of our fleet, and the ability of the Sapura 3000, Skandi Acergy and Rockwater 2. In the North Sea, the Knarr project progressed also well in the fourth quarter, with bundle fabrication and installation in the year. Overall, 2014 was a robust year operationally in the North Sea, with good progression on several contracts.

Offshore Nigeria, the first installation phase was successfully completed on Erha North, and fabrication is continuing at our joint venture, Nigerdock. Our Life of Field business, with its base of multiyear day-rate frame agreements, remains steady, supported by our competitive offering and strong reputation for safe and reliable delivery. Our joint ventures, Seaway Heavy Lifting and SapuraAcergy returned to more moderate level of activity, down from the high levels experienced in 2013.

Turning to our backlog on slide eight, we ended the year with $8.2 billion of secured orders in our backlog, down from record levels at the start of the year, reflecting the deterioration in market condition compounded by the collapse in oil price.

In the first half of the year, we secured several large and medium-sized contracts including Catcher offshore UK and the Baobab project offshore Ivory Coast. In the third quarter and fourth quarter, we have seen clients more tightly control project growth and a number of contract awards to the industry were deferred as market condition became suddenly worse. The strengthening of the U.S. dollar resulted in a foreign exchange impact to our backlog of $400 million in the year.

Our backlog order of $4.1 billion is for execution in 2015, giving us a solid base for this year's revenue. Further out, our backlog is predominantly supported by long-term day-rate contracts including the PLSVs we have with Petrobras. We do remain active on a number of significant tenders and are confident in our competitive position. But the timing of new awards to the market remains highly uncertain.

I will talk more about the market and outlook later on. But first, I will hand over to Ricardo to talk about our financial performance in more detail. Ricardo?

Ricardo Rosa: Thank you, Jean, and good afternoon, everyone. Let's first look at the income statement highlights on slide 10. Fourth quarter revenue was $1.4 billion, taking the full year to $6.9 billion, 9% higher than in 2013, reflecting high activity levels particularly in the first three quarters.

Full year adjusted EBITDA of $1.4 billion included $100 million reduction in the full-life project loss recognized on the Guará-Lula project. As Jean mentioned, we recognized the partial impairment of goodwill in the fourth quarter relating to the combination in 2011 in response to the lower price environment and consequent change in market outlook. This $1.2 billion non-cash charge does not impact our adjusted EBITDA, but affects our net operating income and net income figures, as well as our earnings per share. Excluding the impairment, we generated net operating income of $930 million, net income of $802 million and diluted earnings per share of $2.32.

Our reported annual net operating loss of $254 million included $89 million in asset impairment charges taken in the fourth quarter relating primarily to Seven Polaris and some mobile equipment. Income from joint ventures was down in the year, and notably low in the fourth quarter as a result of lower activity levels particularly for Seaway Heavy Lifting following a downturn in offshore wind farm installation project.

After having annual net finance income of $1 million and other gains and losses, mainly comprising foreign exchange gains of $24 million, we reported a loss before taxes of $230 million. The $152 million tax charge for the year was equivalent to an effective tax rate of 16% after excluding the impact of the goodwill impairment on which no tax relief is available. This was an improvement on our guidance for the full year of 26% to 28%, benefiting from the reduction of the full-life loss on Guará-Lula which had no tax effect, revisions to the forecast tax rate and adjustments relating to prior years. Net loss for the year was $381 million resulting in a diluted loss per share of $1.02.

I will now turn to slide 11, and the territories' operational performance in the fourth quarter. All four territories were profitable in the quarter on an adjusted basis excluding the goodwill impairment charge. With underlying margin growth in the Brazil, North Sea and Canada territories, and the Africa Gulf of Mexico and Mediterranean territory, offsetting margin declines in Asia Pacific and Middle East.

Taking each territory in turn, Africa, Gulf of Mexico and Mediterranean generated $511 million in the quarter with adjusted net operating income of $64 million. There was a good level of activity in the period, although vessel utilization was lower than the fourth quarter in the prior year, and we continue to experience some timing delays on the Lianzi project offshore Angola. Offshore Mexico, the Line 67 Project for Pemex made significant progress despite some operational challenges.

In Brazil, revenue increased slightly in the fourth quarter to $209 million from $206 million in the fourth quarter of 2013. Our fleet of PLSVs have high levels of utilization except for Seven Mar which was in dry dock during the quarter.

The offshore phase of the Guará-Lula Northeast project was successfully completed. Adjusted net operating income of $35 million which included a $16 million reduction in the full-life project loss previously recognized on Guará-Lula. This compares favorably with a net operating loss of $13 million reported in the fourth quarter of 2013.

Asia Pacific and Middle East delivered revenue of $217 million, an increase of $57 million on the prior-year quarter, largely due to high levels of activity on the Gorgon Heavy Lift and Tie-in project offshore Australia. Adjusted net operating income was $22 million, more than the level of the prior year period despite relatively low margin recognition on the Gorgon project.

The North Sea and Canada territory generated revenue of $459 million, compared to $544 million from the prior year period, while adjusted net operating income amounted to $85 million, which was $22 million higher than in the fourth quarter of 2013. The decrease in revenue mainly reflected lower vessel utilization, a trend which has continued into the first months of 2015. The increase in adjusted net operating income was driven by good project execution due to the successful commercial close out of certain projects.

Although not shown on this slide, net operating losses incurred by the corporate segment were $105 million, including asset impairment charges totaling $80 million. The partial impairment of Seven Polaris, a rigid pipelay and heavy construction vessel, was the result of our regular review of the carrying values of all our vessels having regard to their age, marketability and technical specifications.

Slide 12 summarizes our 2014 full year performance excluding the goodwill impairment charge and highlights the underlying profitability of our activities in all our territories. The increase in group revenue year-on-year was primarily due to higher activity levels in APME and Brazil.

I'd like to take a moment on slide 13 to reflect on our cost base in 2014. Subsea 7 is a people-led business with differentiation driven by our expertise and experience in project management and technology. It is therefore unsurprising that people are a significant part of our cost base. We do have some flexibility here with around a third of our workforce on non-permanent employment contracts.

Furthermore, the long lead time on projects allows us to implement cost reductions in certain onshore locations to better match market conditions. That said, it is important to retain our expertise through the cycle to support continued excellent execution and to position ourselves to win new orders when the market picks up.

The versatility and capability of our fleet enables us to execute complex projects worldwide. We had 39 vessels operating at the year-end. Around a quarter of the fleet was contracted on long-term day-rate work, including seven PLSVs with Petrobras. Although the costs per vessel are largely fixed, we do have some flexibility with around a third of the fleet chartered, with renewal dates starting from the end of this year.
I'll talk more about our fleet replacement program in a moment, but it is worth noting that when the five remaining vessels currently under construction are delivered, three of them are going straight on to long-term contracts in Brazil, and the other two are expected to replace existing capacity.

Our depreciation and amortization charge, excluding impairments in 2014, was $421 million, most of which related to our fleet. This charge is expected to increase in 2015 as we complete our vessel replacement program, although the increase will be mitigated if we dispose of older owned vessels.

In 2014, procurement and other related project costs came to $2.8 billion, excluding the cost of the vessels and people. This cost does vary quite significantly depending on the profile of the work and activity levels in the period. There are other costs not included in the categories I've just mentioned, and we continue to take a proactive approach to cost optimisation across all our operations worldwide.

As reflected on the summary balance sheet on slide 14, we ended the quarter with a cash and cash equivalent balance of $573 million. Total borrowings stood at $578 million, driven down during the year by the maturity of the $275 million bond in October 2014, and a repurchase of $82 million par value of the 2017 convertible for a total of $76 million in cash.

We take a conservative stance to financial leverage, consistent with an investment grade rating. A key priority for us is to maintain our balance sheet strength, which is particularly important in the down cycle. A major benefit of a strong balance sheet is that it supports investing activities through the cycle, allowing us to take a long-term view regarding our fleet renewal program and also consider any strategic investment opportunities that may arise.
Our liquidity position is satisfactory. We negotiated a new revolving credit facility during 2014 on terms that reflect the investment grade quality of our financial position. This facility extends to September 2019 and was un-drawn at the end of the year. We no longer have any assets held for sale on the balance sheet having declassified the net assets of Sonamet following the failure to satisfy sale conditions that were outside our control. We have re-presented comparatives when necessary to reflect this, and the impact on profitability for 2014 was insignificant.

I'll now turn to slide 15, which provides an overview of cash flow over the year. Net cash generated from operating activities totaled $1.5 billion, with $361 million generated in the fourth quarter.

Net operating assets decreased by $268 million in the year with our continued focus on working capital resulted in significant improvement in receivables. Net cash used in investing activities amounted to $828 million which included $861 million of capital expenditure largely in relation to the construction of the remaining five vessels in our fleet enhancement program.

Net cash used in financing activities amounted to $720 million which included the 2013 cash dividend of $195 million paid in July, $166 million on repurchasing 10.5 million shares and convertible bond repurchases and redemptions totaling $337 million. We ended the year with net debt of $6 million.

The board's decision not to recommend a dividend in respect of 2014 was taken after assessing the various near-term challenges facing our industry and the consequent importance of preserving liquidity. Financial flexibility is both prudent and positions us for value-adding opportunities should they arise.

Nevertheless, we have a good track record of returning cash to shareholders and using our capital to reduce potential shareholder dilution. Since the combination, we have returned over $1 billion to our shareholders through our dividend and share buyback program. Furthermore, in November this year – November 2014, we cancelled 19.6 million treasury shares.

The impact of our antidilutive measures is reflected in the significant reduction since last year in the weighted average number of shares used in determining adjusted diluted EPS for the quarter. Our $200 million share repurchase program remains in place and while we will be cautious in our management of liquidity to the extent we generate excess cash we will utilize the program to return the good cash to our shareholders.

Moving on to slide 16, investing in new vessels is important to the long term versatility and flexibility of our fleet. Our current renewal program is on schedule and within our cost target. We've spent $544 million on the program in 2014, lower than guided, as a result of the timing of certain milestone payments around the year-end. This is reflected in our 2015 and 2016 revised guidance, with no impact on the total cost or duration of the overall program.

Before I hand you back to Jean to update you on our strategy and outlook, I'd like to talk about our new guidance which is summarized on slide 17. We have a solid backlog of $4.1 billion for 2015 and this underpins our revenue expectation. The environment for new orders is challenging but nevertheless, there is activity and we are positioned competitively.

As a result, we expect 2015 revenue to decrease significantly compared to the record level achieved in 2014. And although we continue to make good progress in implementing cost efficiency measures, we also expect our adjusted EBITDA margin to decrease. Administrative expenses in 2015 are expected to be in the range of $280 million to $300 million, 5% to 10% lower year-on-year. We expect net finance costs of around $5 million to $10 million due to lower levels of debt and increased levels of capitalized interest during vessel construction.

And we expect depreciation in 2015 to be around $420 million to $440 million, higher than the charge incurred in 2014 largely due to the forecast progression of the fleet renewal program. This forecast does not include any reduction resulting from potential asset disposal.

The effective tax rate is expected to be in the range of 28% to 31%, largely as a result of changes in the geographical mix of our projects. And capital expenditure is expected to be slightly higher than in 2014, within the range of $900 million to $950 million and includes $700 million for the newbuild vessel program in addition to our basic level of ongoing sustaining Capex of between $200 million and $250 million.
I will now pass you back to Jean.

Jean Cahuzac: Thank you, Ricardo. Let's turn now to slide 19. I'd like briefly to remind you what makes Subsea 7 a global industry leader. It's our vision to be acknowledged as a leading strategic partner in the seabed-to-surface offshore energy industry. We achieved this by living our values: safety, integrity, innovation, performance and collaboration. In challenging times such as we are seeing today, these values are all the more important as our clients are looking for a partner who can execute cost-effective technical solution that will safely deliver complex projects at a lower cost.

We are differentiated as a Tier 1 supplier by the expertise and experience of our people and our innovative technology. Our versatile fleet and flexible fleet and offshore asset base enable us to be highly capable of delivering top quality subsea services for our clients on a wide range of projects worldwide.

Moving to slide 20. We refocused our business at the start of this year, implementing a new organizational structure comprising two business units: the Northern Hemisphere and Life of Field business unit and the Southern Hemisphere and Global Project Centers business unit.

There are several strong drivers of these channels. The new structure includes a direct reporting line to me for strategy and technology and taking us to optimize our technical and operational knowhow; one of our key differentiators. It will drive a more focused project management and service delivery and enough competitiveness through a more channel allocation of our resources and capabilities. The Global Project Centers will enable us to optimize our management of large, complex, technology-rich projects and improve our flexibility in how we manage them for our clients, therefore allowing us to reduce cost.

We are a leading Life of Field operator. The organizational change will enable us to take a global approach, which will drive expansion in new geographies and grow our market share. Last but not least, the structure will help us to be more cost-effective, which is important at all times, but particularly so in today's challenging market environment. We have provided 2014 quarterly results under the new segments in the appendix of this presentation.

So let's turn to slide 21. I would like to offer some comments on the market condition we are experiencing today. In late 2013, we identified the softening of the market as our clients looked to reduce the cost of new field development. This trend continued throughout 2014 and accelerated in the second half of the year as the oil price fell to around half its level at the peak. This fall in the oil price has introduced a new period of uncertainty for the Subsea sector and our ability to help our clients find cost effective solutions is key to winning new work.

I want to reassure you that we have not changed our attitude to risk. We will continue to take a rigorous approach to evaluating an acceptable project risk profile and allow the same degree of contingency as we would in a better market environment.

We are not anticipating a near-term improvement and our plan for the near-to-medium term are based on this assumption. That said, the long-term fundamentals for the development of deepwater oil and gas reserve remain intact and we will protect our cost trends to stay differentiated and drive outperformance when the market environment improves.

Slide 22 shows some of the area of focus that enables us to help our clients to reduce the cost of field development. Working with clients to standardize specification and deliver a fit-for-purpose solution can and will significantly reduce cost. This broader collaborative approach will benefit our clients and us both now and into the long term.

As set out on slide 23, we have already taken action on our cost base. We identified the softening of the market in late 2013. Since that time, we have taken decision to reduce our head count in Brazil and Norway and, as a result, we have around 500 fewer people in these two locations combined. This alone with other restructuring effort worldwide has reduced our overall head count to around 13,000 people by year-end from 14,000 in 2013. We will continue to adapt our organization on a country-by-country basis to suit lower levels of activity triggered by the lower oil price environment.

We have also conducted an in-depth review of our fleet, identifying opportunities to reduce capacity by up to 10 vessels over a two-year period while maintaining overall capability. This can be achieved by releasing some of the vessels that are nearing their lease renewal dates and retiring some of the owned vessels that are aging and can be replaced by vessels from our fleet renewal program, and existing capacity from third parties when the market picks up.

We'll continue to drive efficiencies through internal processes supported by the benefits derived from our segmental organizational structure. As we look ahead, we need to retain sufficient capability to execute existing work and win new awards. With this in mind, we will maintain our core expertise to enable us to outperform through the cycle and grow strongly when activity levels picks up. In the meantime, we remain committed to implement the necessary cost reduction measures and efficiency improvement to protect our business through the downturn and preserve competitiveness.

Moving on to the near-term outlook on slide 24. We continue to see tendering activity for new contracts, and there are some major projects that we expect to be awarded in the market this year. However, the timing of awards to the market remains highly uncertain, and we continue to see delays to final investment decision driven by the present low and volatile oil price.

We're competitively repositioned and confident that our expertise and experience puts us in a good place to win awards when they're sanctioned. But as I said before, we will not sacrifice our risk profile to achieve this.

Life of Field activity has been steady as there is no change to the outlook. Our reputation for safe and reliable execution is a competitive advantage and our new organizational structure will help us to expand this offering into new geographies. The outlook for conventional shallow water activities is moderate with the Satellite Phase 2 field offshore Nigeria still expected to be awarded late this year. Finally, the outlook of our largest two joint ventures, SapuraAcergy and Seaway Heavy Lifting remain subdued.

So to summarize, on page 25, we delivered good operational and underlying financial results in 2014. This was a result of excellent project execution and careful cost management against an increasingly challenging market backdrop. In the fourth quarter, we reported an adjusted EBITDA margin of 21% which led to adjusted EPS for the quarter up to $0.61. The decline in order backlog of $8.2 billion reflected a deteriorating industry environment.

We have over $4 billion of work in our backlog for 2015, providing a solid base for our revenue this year. A substantial proportion of the outer-year activity is related to high quality day-rate contract in Brazil and the North Sea which should deliver a long-term steady financial contribution. We have been quick to take action in diversifying and executing cost reduction measures and we will continue to focus on better matching our cost profile to the expected activity levels while maintaining our core expertise and experience. We look forward to working even more closely with our clients and with the industry to help lower the overall cost of field development.

In conclusion, the present challenge that our sector is facing does not diminish our belief that we are well positioned in the market segments whose long-term fundamentals remain intact.

And now, Ricardo, John and I will be pleased to answer your questions.

Operator: We will now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Fiona Maclean of Merrill Lynch. Go ahead, madam. Your line is open.

Fiona Maclean: Thank you. Yes, it's Fiona Maclean here at Merrill Lynch. I have a couple of questions, please. You talk about Life of Field as having some growth opportunities and particularly on a geographical basis. Could you talk a little bit further about that and how you can see that developing over this year or next year? Could you give us a brief outline also on the Lianzi project, and just expand on what exactly is happening there in terms of timing and things? And then the last question, are you willing to put a value on the amount of cost you're expecting to be able to save over the next couple of years? Thank you.

Jean Cahuzac: Thank you, Fiona. First on the Life of Field opportunities, Subsea 7 is a leader in Life of Field in North Europe, and we see opportunities to expand this business further outside of North Europe based on our capabilities, the flexibility of our fleet and our expertise. What we are seeing in the market is that while operators are looking at optimising the cash that is spent on the Capex program, there is still steady activity on the Opex side. They have to maintain production and do the maintenance of their field. So we foresee some opportunities medium- to long-term outside of the North Sea and to expand our business. That's one of the reasons why we've changed our organisation to be more effective to capture opportunities. Regarding the Lianzi project, I'm going to ask John to give you an update.

John Evans: So Fiona, as we flagged in the last call, we see that Angola has challenges with issuing of visas for offshore and onshore crews. We are working on the project. We're offshore laying pipe as well as doing our topsides, two separate contracts we have there, but there is an ongoing challenge to get visas renewed, which is causing us some slight delays in the work that we're actually doing on the project at the moment. But all the activities are moving ahead, although we have the daily challenges of managing a rather erratic delivery of visas to us.

Fiona Maclean: Okay. Clear.

Jean Cahuzac: And regarding your question of cost, I mean, we're focusing in three main areas is to address the size of our organization country-by-country to adapt to the evolution of the market based on the level of activity. As we mentioned before in the presentation, adjusting the fleet to this level of activity, and we have some flexibility with a chartered vessel that we have to address the size of the fleet. And also an overall reduction of cost through simplification, fit-for-purpose solution and, I would say, continuing to develop a culture of cost culture and cost cutting that we started a few years ago.

All that will result in a significant and material reduction of cost. It's difficult to give you an absolute value because it all depends on the timing of the projects and the timing of the project award, but I can reassure you that we are ready and we will act quickly and diligently as soon as we have a better idea of what's happening in each of the country. And you've seen that we already acted in Norway and in Brazil, and that's the top priority of the whole organization.

Fiona Maclean: Okay. Thanks very much. That's it from me.

Operator: Our next question comes from Mick Pickup of Barclays. Go ahead, sir. Your line is open.

Mick Pickup: Good afternoon, everyone. It's Mick here. A couple of questions, if I may. Firstly, Jean, I'm sure you've had plenty of letters from your clients just asking for straight cost cutting across the board. And as you've said, obviously, collaboration is the way forward. Do you think there actually is a willingness to listen from your clients and a genuine change going on there? And I wondered if you could just give us a few examples of what you can do for them?

Jean Cahuzac: Thank you, Mick. What we are seeing today from all our clients, from small operators to large IOCs is focusing on the need to lower the cost of their development. I would say their approach varies. It depends on the type of operation they have. But what is very clear is that all of them are looking for what we can propose, is to have an earlier engagement with them to propose solutions to do things in a different way and in a simpler way. And to give you some examples, one thing that we're working on with clients is standardisation, how can we learn from our worldwide operation to propose more standard solution, more fit-for-purpose solution and help them to develop their specific project. So it's not a silver bullet, but I think there are a lot of things that we can propose, and the credibility that we have through our expertise and the size of our organization and the versatility and agility of the whole organization, I would say, is a plus. So good progress, but it's a long journey that we have to travel together.

Mick Pickup: Okay. And the second question, can I just ask about the PLSV contracts? Obviously, it's an important part of your base for the next few years. Have you had any comments from Petrobras about those contracts? Are they happy as they stand?

Jean Cahuzac: The feedback that we have from Petrobras is quite positive. They are very happy with our execution. And we have not seen any change in the approach of Petrobras regarding our PLSV contract, both the ongoing contracts and the new vessel which will be delivered in the near future.

Mick Pickup: Thanks, Jean.

Operator: Our next question comes from Philip Lindsay of HSBC. Go ahead, sir. Your line is open.

Phillip Lindsay: Two questions, please. The first one related to the suspension of the dividend. You're hinting that you're keen to look at opportunities that the downturn might present, but you've also said that you've got plans to divest of up to 10 vessels. I suppose one could read from that that you might not want too much more offshore construction exposure. So perhaps you can just talk us through the strategic direction that you may wish to take the business in longer term. And then the second question, just sort of following some of the press stories around TEN in Ghana, what are the risks there for you given the maritime dispute between the Ivory Coast and Ghana? Can you quantify the remaining backlog that you've got on the project and maybe how this might impact your guidance in the event of the material delay on that one.

Jean Cahuzac: Let me address first the TEN project and I will come back on our overall strategy on the vessels and where we want to go. I mean, regarding the TEN project, it's a story that you've seen before between the Ivory Coast and Ghana. It's not a new story. It's something which has been around since 2013, if I'm not wrong.

From the information that we have, the TEN project will continue as planned and to give you an example, I mean we are presently getting ready to do offshore operation with Borealis in August 2015. There is no change. To date it's not something that is on my radar as a material risk. Things can change, but it's not there now.

Regarding our strategy on the vessels, I just want to clarify your point, when we are saying that we have flexibility to release 10 vessels, it includes chartered vessels which if we did plan to release a charter vessel would allow to limit the cost associated with chartering the vessel, etc. would not generate additional cash in terms of sales or disposal of assets. You have the list of vessels in the presentation, the ones that are chartered and the others.

Regarding our long-term strategy, it's important that we keep the core expertise that we have on the people side, but also that we have the right enablers to execute the project and take opportunities when the market picks up and we have that with the high end, in our vessels. So we have a way to rebound when the market picks up if we decided to release 10 vessels to actually have access to the field so that we need to go back to a growth mode.

In terms of working with the clients earlier, it's happening now. It's happening now around the world, and it's not only one or two clients. I would say we are doing this with numerous clients globally in a very productive way.

Phillip Lindsay: Maybe just one final quick one, on Gorgon, not recognizing much margin on the project. What exactly is the dispute with the client? Can you elaborate on that, please?

Jean Cahuzac: John, over to you?

John Evans: Yeah. So Gorgon is a complex piece of work with a mixture of reimbursable day-rates and lump sum elements in the contract. We are making substantial progress through it. There are a number of elements in discussion with our clients at the moment. But overall, the offshore work is going well for us. I think we've delivered on time to the client. And we will go through a series of dialogs in the next six months with the client to get our final account for that project.

Phillip Lindsay: All right. Thanks.

Operator: Okay. Our next question comes from Haakon Amundsen of ABG. Go ahead, sir. Your line is open.

Haakon Amundsen: Yes. Hello, guys. Thanks for taking my question. And just a question on the value of scope expansion or smaller unannounced contracts. Does the Q4 level represent kind of a tough market and hence something we should expect going forward, or is the volume likely to deteriorate further? That's my first question. And then the second question in general on the day-rate charters you have, are there any material attempts from clients to renegotiate this for lower rates? And what's your position to potentially lower those rates in exchange for longer contracts, for example, or other benefits?

Jean Cahuzac: John?

John Evans: Yeah. On the second question, our recent award of the Shell contract is an example there where we work with our clients. We have renewed our diving vessel for a further two years, and there's been no major change in our terms and conditions for that vessel. However, our client had a different requirement for its ROVSV. So by having the size of fleet, we could do – we could offer a different format for our client, which we did and you saw that in the recent announcement we had with Shell. So I think one of the important things to remember with Subsea 7, we can offer our clients different types of capabilities at different times in their cycles. We look at our relationship with Shell. We've been working with those guys for over 30 years, and we've adapted and changed with them. So I think the key message here is we are open for dialogs with our clients as they change their requirements, but we have the capability to offer different requirements for our clients at different times.

Jean Cahuzac: Regarding your question on the unannounced scope project award, I would add two comments. Firstly, Q4 was impacted by a seasonal effect in the North Sea like every year, and it's likely to be the case in Q1 2015, too. Not a surprise there. We are also seeing less discretionary work being awarded on the existing contract around the world, and that's driven by the present low price of oil while our clients are optimizing cash, actually looking at what they could delay to some extent. So that explain why we've seen in the second part of 2014 less discretionary work awarded to us on the existing contract. Price of oil is a driver of that. I mean, it doesn't reflect anything else.

Haakon Amundsen: Thank you. And just a final question, if I may. If you could comment on the working capital level and the movement in cash flow from working capital that we could expect in 2015?

Jean Cahuzac: Ricardo?

Ricardo Rosa: Yes, Haakon, I think, as I indicated in my comments on 2014 we had – we saw the benefits of improving working capital and part of this is due to our efforts to improve the collection of receivables and effectively just manage very proactively our investment in working capital.

Going forward, the working capital picture is unlikely to maintain that positive trend. I think, in 2015, we could envisage pressures on working capital perhaps from the perspective of client needs. And also because when you're working with negative working capital and you are looking potentially at lower levels of activity, there is a risk that the negative working capital position, while still remaining negative, may diminish which is effectively a liquidity outflow. So we're not expecting to maintain the same levels of – or the same progression in terms of working capital as we achieved in 2014.

Jean Cahuzac: Having said that, I mean, we're not expecting a drastic deterioration either. I mean, we've done a very good job. The whole organization I think has done a very good job in managing cash and managing working capital. So it remain a focus and – but, again, I mean, in this environment, we need to continue to focus on that and we will.

Haakon Amundsen: Okay. Thank you.

Operator: Our next question comes from Rob Pulleyn of Morgan Stanley. Go ahead, sir. Your line is open.

Rob Pulleyn: Good afternoon, gentlemen. Just a couple from myself. Following on from one earlier, in light of your comment in the release about looking for opportunities, the balance sheet strength and the comment from Kristian at the start of the conference call. May we sort of assume from that you would be looking for something reasonably asset light, and does that represent a change in philosophy from Subsea 7's sort of historic basis whereby you've been, shall we say, more indifferent to how companies and your clients want to actually do project and perhaps this is a reflection of sort of the sign of the times that you need to be in much earlier? Could you give a little bit more color around whether we're looking at that change in philosophy or not? And then secondly, just a couple of housekeeping questions. In terms of the PLSVs which obviously are very stable form of cash flow, would you be willing to give us how much is the 2015 execution? And then finally, on the comment – following on from the comment on working capital, a small working capital outflow this year, would you be prepared to have a stab at net debt at the end of 2015? Thank you very much?

Kristian Siem: Okay. I would not say that there is a change in our strategy. We want to be prudent. I think Ricardo outlined and described our view with regard to dividend return or capital to shareholders very succinctly and complete. It's a question there of being prudent. And one of the questions here were whether we were planning to dispose of 10 vessels. I think, Jean said, we're not planning to sell 10 vessels, we're earmarking flexibility in our fleet to adjust if the market were to change dramatically and stay down longer than we think then you have that flexibility, and that's what we have been focusing on is the overall cost structure of the company and of course the fleet is part of that. The reality is that none of us can determine with any high degree of certainty the length and depths of this downturn and we want to be prudent in planning for the worst and hoping for something better. And we also want to have enough liquidity and a strong enough balance sheet to take advantage of the opportunities that normally arise and are likely to present itself in the downturn. So that's our thinking. Over to you, Jean.

Jean Cahuzac: Yeah. And maybe just one comment to your comment, Kristian, is that we have this flexibility if we were to decide to do so to release the number of vessel but that by no means would prevent us to provide all the technical solution that our client needs. We are going to keep it in line with our strategy, our capabilities to be able to deliver the right solution whatever the technology required is, from flexible pipe, to rigid pipe, to heavy construction. So the strategy – the fleet strategy hasn't changed in this area either. Ricardo?

Ricardo Rosa: Yes, Rob. I just wanted to address your question on the PLSVs. As we've indicated, we have approximately $2.8 billion of PLSV-related revenue in our backlog at the end of the year. This is not the only backlog that we have in relation to Brazil because we have smaller projects that we're wrapping up, as well as activity in i-Tech which is long term. But as we continue to build our presence with the arrival of new vessels into Brazil, we would envisage activity in the order of $400 million to $500 million in the year 2015, with a continued upward trend in 2016. So I hope that answers your question on PSLVs. As far as net debt is concerned, I mean, clearly we have a range of cash flow projections, but I don't want to commit to a particular figure because it's a function of a number of variables, timing of capital expenditures, timing of cash, operating cash flows as a result of activity in the year, and also dependent on, to an extent, on what may happen to our working capital profile. But what I do want to assure you of is that we have a ready access to financing institutions in the capital markets, and our intent is to maintain a balance sheet and liquidity profile that is what you would expect from a company that has a position that is consistent with an investment-grade rating.

Rob Pulleyn: Okay. Thank you, gentlemen.

Operator: Our next question comes from Frederik Lunde of Carnegie. Go ahead, sir. Your line is open.

Frederik Lunde: Hello. Thanks for taking the questions. I was wondering if you have – if you could you give us a comment on what vessels you're considering selling or releasing? And also, if you say book values, give or take, reflecting market values; and if those numbers are, I should say, significant, compared to your total balance sheet. And also, if you could give some comments on the share buyback program which has been fairly quiet this year.

Jean Cahuzac: Thanks, Frederik. Regarding the fleet, what we are saying is that we highlighted the flexibility that we have to adjust the size of the fleet to match the level of activity. We haven't taken decisions on the one vessel basis for each of the vessels, so we'll see how it goes. So there is – we have this flexibility. We'll manage with this flexibility which obviously good to have.

Frederik Lunde: But are book values overall fairly in line with, let's say the market values if you are to sell those presumably old vessels in 2015?

Ricardo Rosa: I think, first of all, we don't want to be too specific about any decision that may make in the course of 2015 with regard to the disposal of either chartered or owned vessels. I think that would be commercially sensitive to do so. What we can say is that we're not in a position or we're far from being in a position where we have to be concerned about a distressed disposal of asset. So with that in mind, we're pretty comfortable with the valuation that we have for our asset on the balance sheet.

Frederik Lunde: Right. And in terms of the share buyback program, could you comment on where you stand on that?

Ricardo Rosa: As I've commented earlier in the call, our share repurchase program has been in place. It's a $200 million envelope approved by the board, and it is valid until July this year. We have acquired $50 million so far under that program, and we have maintained the program and intend to maintain the program to its validity date and we will execute share repurchases under that program to the extent that our liquidity and potential excess cash position allows us to do so.

Kristian Siem: I was just going to complete that answer by Ricardo to say that you're right that we have not executed that program as quickly as we have done in previous programs and that is because we want to be a bit more opportunistic with regard to the pricing of the buyback.

Frederik Lunde: Thanks. So just final question in terms of what you see in terms of bidding activity and the size of those projects. Because I would assume smaller projects may be ideal in terms of filling up capacity for 2016 while bigger contracts would then require more capacity in, say, 2017, 2018. And potentially leaving a gap in the backlog for next year. How do you see the type of projects being bid out there and the probability of being able to align capacity to projects?

Jean Cahuzac: Well, we still see a fair amount of projects small, medium and large size, what remain is the uncertainty on the timing of these award of the projects. So the projects are there, the question is when will the client push the button and actually activate this project. But we are today bidding and discussing with our client all size of project, uncertainty of the timing of award to the market remains, so it's difficult to answer.

Frederik Lunde: Okay. Thank you.

Operator: Our next question comes from Asad Farid of Berenberg Bank. Go ahead, sir, your line is open.

Asad Farid: Hi. I have three interrelated questions; firstly, can you explain the sharp quarterly volatility in your operating margins for Brazil where operating margins fell to 17% in the fourth quarter from 35% in the third quarter. This was despite project execution on Guará-Lula projects being the same two quarters.

And secondly, how long was the Seven Mar vessel in dry-docking in the fourth quarter of the year, and what's this planned downtime? And can you give some color on PLSV vessels which are going to go into dry-docking in 2015? And lastly, can you potentially delay the delivery of the DSV and the construction vessels which you are constructing right now into 2016 or 2017? Is that possible if the market outlook further deteriorates and your backlog continues to decline in 2015?

Jean Cahuzac: Thanks for your question. To answer your last question first, I mean, we don't see the need today to delay the delivery of these vessels from the way we see the market. The second, we don't see a reason to delay the delivery of the vessels. We believe that we will have utilization. Regarding the results in Brazil, this was the planned dry-dock of the Seven Mar having an impact on results but, I mean, that's not abnormal, and that's something that we're going to continue to see in the years to go. To tell you when it's going to happen on every quarter, I mean, that discussion we have with Petrobras to meet their schedule. So there are different options. But nothing abnormal there. Q4 was impacted by a planned dry-dock on the Seven Mar. I propose that we take one more question before we close.

Operator: The final question then comes from Mukhtar Garadaghi of Citigroup. Go ahead, sir. Your line is open.

Mukhtar Garadaghi: Hi, gentlemen. Just a couple of sort of interrelated questions from me. In terms of the back-end of 2015, what are the kind of the major tenders do you see out there with reasonable probability on being awarded and how are you guys positioned on them, just referring to things like Gendalo where you've had discussions with the client. And just related to that, just for your major assets like Borealis, what the utilization schedule look like for late 2015 and 2016? And will these vessels remain profitable if they're forced to execute on sort of smaller Opex-related projects? Thank you very much.

Jean Cahuzac: First, we're not commenting on 2016. I mean, it's too early so I will not comment on 2016 at this stage. Regarding the list of projects that we see, they are the same - the list is the same as the projects that we have identified last quarter. The question is when will be these projects awarded. So we are still working on all the same vendors but we don't really know when this project will be awarded. So there is no change there, projects are still there. The big question is when it will happen and it's difficult to answer to this question.
Regarding the utilization of the vessel, It all depends on the timing of the projects and what will happen. We mentioned that for 2015, we have a good base for the backlog to be executed in 2015 and that we based our comments on this backlog for 2015. As I've said before, we'll talk about 2016 later on.

Mukhtar Garadaghi: Okay. Thank you very much.

Jean Cahuzac: I would like to close the call on that, and thank everybody for your question. And looking forward for the next communication at the end of Q1. Thank you.