Subsea 7 S.A.

Third Quarter 2016 Results Transcript

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Speakers:
Jean Cahuzac - Chief Executive Officer
Ricardo Rosa - Chief Financial Officer
John Evans - Chief Operating Officer

Isabel Green

Good afternoon, everyone. With me on the call today are Jean Cahuzac, our Chief Executive Officer; Ricardo Rosa, our Chief Financial Officer; and John Evans, our Chief Operating Officer. The results press release is available to download on our website, along with the presentation slides that we'll be referring to on today's call. Please take note of our forward-looking statements disclosure on slide 2. Similar wording is also included on our press release. I'll 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 our key financial and operational highlights, and then Ricardo will cover our financial results in more detail. We will close with an update on the strategic importance of early involvement and collaboration with our clients, as well as our investment in technology. I will finish with a comment on our outlook. As usual, there will be time to take your questions at the end of the call.

Turning first to the highlights on slide 4.
We have delivered another quarter of strong operational and financial performance, in a business environment which remains challenging due to the severe downturn in oil and gas investment. Revenue was $928 million in the quarter, and adjusted EBITDA was $289 million, down 23% and 18% respectively compared to prior year period. Our adjusted EBITDA margin of 31% remained elevated as a result of successful completion and close-out of several large projects, and also the benefits from our early action on costs and resizing. As a result of our financial performance year to date, we have raised our guidance for 2016 adjusted EBITDA percentage margin and we now expect it to be higher than the margin reported in 2015. However, we are not forecasting the percentage margin to remain at this level going forward; we expect it to be significantly lower in 2017. Our net cash balance at the end of September was $943 million, maintaining a strong financial and liquidity position. Our financial security gives us a competitive advantage, as our clients know that they can depend on us. It also gives us the opportunity to consider potential strategic investments.

Our fleet of active vessels achieved 91% utilisation in the third quarter. This was an improvement on the second quarter, with less downtime for planned maintenance and fewer gaps between scheduled activities. Total vessel utilisation was 75%. As at 30th September, there were 29 vessels in our active fleet, and we are on track with our resizing programme as well as investments in new vessels. During the quarter, we took delivery of our new-build PLSV *Seven Sun*, which has since commenced its long-term contract for Petrobras. *Normand Seven* was returned to its owner at the end of its contract, and we sold *Seven Petrel* to a buyer outside the oil and gas industry. Including vessels that are stacked or under construction, we have a total fleet of 36 vessels, eight lower than at the peak of 2014.

Order backlog was $6.2 billion at the end of September. We did not announce any awards in the third quarter and our unannounced order intake was low, reflecting the challenging conditions industry-wide. Although our clients continued to delay awards and limit discretionary work in the quarter, they are engaging with us to seek solutions that will enable new projects to be sanctioned.

Looking ahead over the next 18 months, we believe that the better oil price and continued progress on sustainable cost reductions could drive more project awards to the market.

Turning to slide 5.
Subsea 7 is a market leader in technology-rich and innovative solutions. Our project portfolio is diverse, with approximately 60 EPIC projects of varying size and complexity. We have performed well, with good execution and risk mitigation resulting in successful and safe project delivery worldwide. On the Aasta Hansteen project, we have concluded our third offshore campaign with all flowlines and control cables connected, ready for the

final hook-up with the topside when it arrives in 2018. Aasta Hansteen is the deepest development in the Norwegian Sea to date, and involves the world's largest spar platform. Good execution has depended on our expertise across several engineering disciplines. The project required the design, fabrication and installation by relay of the first reel-lay mechanically lined BuBi flowlines in the Norwegian Sea, connecting to the spar FPSO through the region's first steel catenary risers.

Offshore UK. We have been installing the riser system on the Catcher project, a Bundles-based solution for Premier. This riser system was challenging and required an innovative buoy system. The riser system comprised ten flexibles and three umbilicals, supported by three midwater arches, one of which you can see on here on the slide. It was installed by our crews on the *Normand Seven* over two campaigns lasting 80 days. Our work on this project is due to complete in 2017 with hook-up and commissioning, which involves an extended diving campaign.

Other projects that progressed well in the quarter were Maria and Martin Linge, both located offshore Norway, and the first phase of the West Nile Delta project, developing the Taurus and Libra fields offshore Egypt. Lastly, we completed and closed out the TEN project, offshore Ghana, following the completion of our offshore campaign earlier in the summer.

Moving to slide 6. Our backlog was $6.2 billion at the end of September, down from the $7.1 billion three months earlier. Order intake was low, with less than $100 million of new awards, reflecting subdued industry conditions. The phasing of our backlog was altered somewhat compared to the last quarter, due to the scheduling of work on the Beatrice wind farm project. Approximately two thirds of the revenue related this project is now expected to be recognised in 2017.

In September, we were awarded a frame agreement linked to a new partnership contract with AkerBP. Frame agreements are not included in our backlog, but we are confident that this work will be called-off over the next four years. Also not included here is the Atoll project, offshore Egypt, which we were award in October. This will be added to our backlog in Q4, and reflects continued success in this country, with close to $2 billion of work awarding to us over the last 18 months.

I will now hand over to Ricardo to cover our financial performance in more detail.

Ricardo Rosa

Thank you, Jean, and good afternoon everyone.
I will begin on slide 8 with the key highlights from our income statement.
Third-quarter revenue of $928 million was down 23% from the prior year period, reflecting declining levels of activity industry-wide. Adjusted EBITDA was $289 million for the quarter and included a restructuring charge of $52 million, of which $16 million was charged to administrative expenses. This takes the cumulative restructuring charge this year to $105 million, slightly higher than our initial guidance due to the inclusion of onerous lease provisions related to the resizing. We do not expect to incur any material restructuring charges in the fourth quarter. In 2015, our third-quarter adjusted EBITDA included a $36 million restructuring charge. Excluding the restructuring charges from both periods, adjusted EBITDA was 12% lower year on year. Net operating income for the quarter was $195 million, just 9% lower than the prior year period, although 2015 was adversely impacted by an $36 million asset impairment. Net operating income included an $11 million share of net income from associates and joint ventures. This was down $22 million on the third quarter 2015, due mainly to lower activity for Seaway Heavy Lifting. The tax charge for the quarter was $37 million, implying an effective tax rate of 20%. This relatively low rate reflected revisions to the full-year effective tax rate in response to an expected improvement in full-year income before tax. Net income was $149 million, which gave rise to diluted earnings per share of $0.44, 4% lower than for the prior year period.

I now move on to slide 9.
The results of the third quarter are the first we have reported under our new reporting segments, which reflect our three business units. SURF and Conventional is our largest business unit. It generated revenue of $801 million and net operating income of $204 million, down 25% and 19% respectively on the prior year period. Revenue performance reflected challenging industry conditions. Adjusted EBITDA benefited from

contributions from the TEN project, offshore Ghana, which was successfully completed and closed out in the quarter, as well as certain large North Sea projects that were nearing completion.

Our i-Tech services business unit produced $97 million revenue, and $19 million in net operating income. The lower activity compared to the prior period was more than compensated for by cost reduction measures, including the return of a number of chartered vessels to their owners over the last nine months.

Our Corporate business unit includes renewables and our share of Seaway Heavy Lifting's net income. It also includes the operating costs and depreciation charges pertaining to our stacked vessels. This business unit contributed the revenue of $30 million in the quarter. This increase in revenue compared to the prior year was due to the commencement of the $1.3 billion Beatrice wind farm project, which was awarded earlier this year. The net operating loss included charges for restructuring in both years, and in 2015 also included the $36 million charge for asset impairment.

Slide 10 shows our historical performance of EBITA percentage margin.
Our margin has been strong in recent quarters, and has exceeded our expectations in initial guidance in both 2015 and 2016. This performance is the result of several factors, and we do not consider it sustainable into the future.
Firstly, our margin has been boosted by our prompt action on costs. We began to reduce the size of our workforce in 2014, as our clients we already highlighting the need for savings even before the oil price started to fall. We have implemented two major cost reduction and resizing programmes: one in 2015 promising $550 million of annualised savings, and one in 2016 with another $350 million in expected annualised savings.

The savings being delivered by these programmes have helped us to stay competitive and win new work, with lower operating costs than our peers. The savings we have achieved have also lowered our engineering, project management and supporting overhead expenses on lump-sum projects already underway, thereby enhancing our margin. However, as the projects awarded prior to the downturn are completed, and are replaced by more recently won work, the benefit of these margin enhancement measures will significantly decline.

The second key contributor to our strong margin has been our consistently good execution, which has resulted in fewer cost overruns and success in de-risking our projects. Percentage of completion accounting is consistent when the cost estimate at the start of the project does not change as the work progresses. When we reduce the project-specific risks and costs through good execution, we tend to complete the project sooner and reduce our contingent cost burden. This explains why we have had an increase in percentage margin in the late stages of project execution. We have been working through the final phases of several large projects which were awarded before the downturn. The result of this is that the average percentage of completion of the projects in our portfolio is higher than at other points in the business cycle. As our mix of projects normalises, the average percentage of completion will decrease, and so will our margin.

Lastly, in recent quarters there have been significant contributions from final settlements and close-outs. These relate to projects where offshore operations being completed and, for various reasons, the project close-out stages have been protracted and settled over extended periods. This is the least predictable element of our margin variance, as the timing of settlement is uncertain, but we can guide to the fact that the number of projects in extended close-out mode is diminishing.

I now turn to slide 11, which provides an overview of cash flow for the nine months to September 2016. Net cash was $943 million at the end of September, approximately $200 million higher than the position at the end of June. Our financial and liquidity positions remain strong, with cash and cash equivalents of $1.4 billion supplemented by $1.1 billion of undrawn credit facilities. In the third quarter, we generated $234 million in net cash from operating activity. The balance of our net negative working capital at the end of September was approximately $780 million, compared to a negative position of approximately $700 million at the start of this year.

Contrary to this favourable movement year to date, we still expect our negative net working capital position to diminish in the full year, as we complete large projects, close out certain net liability positions and the restructuring provisions are largely utilised. Our strong financial enables us to absorb these anticipated working capital movement and grasp strategic investment opportunities that arise. It also gives our clients and lenders confidence in our medium- and long-term outlook.

During the third quarter, we incurred $71 million in capital expenditures, mostly related to our new-build vessel programme which is now almost complete. We also invested $80 million in the acquisition of a pipeline technology company, Swagelining, with additional consideration payable in future periods contingent on the achievement of pre-agreed performance milestones.

As shown on slide 12 our new-build programme is progressing well, with all six vessels expected to be completed for less than $2 billion in total. The latest vessel to join our fleet, *Seven Sun*, after successful sea trials and commissioning, commenced its long-term contract with Petrobras in November. The remaining three new-build vessels are all on schedule to commence operations in the first half of 2017.

Before I hand back to Jean, I'd like to discuss our guidance which is summarised on slide 13.
For 2016, we continue to expect revenue to be significantly below the levels reported last year. But in the light of the results year to date, and our outlook for the fourth quarter, we now expect our EBITA percentage margin to be higher than 2015. This expectation of improved profitability has allowed us to adjust the forecast range for the effective tax rate downward to between 28% and 30%. We have reduced our guidance for sustaining capital expenditure in 2016 to between $90 million and $120 million, reflecting our disciplined approach to investment. We have also reduced our projected changes in networking capital to between $100 million and $200 million. Finally, our net finance income is now expected to be up to $10 million, reflecting our higher cash balance. All other 2016 guidance remains unchanged.

While we believe the downturn in project sanctions and client awards to market has now bottomed, we do not foresee a rapid increase in offshore activity in the near-term. We have $3 billion of work in our backlog for execution in 2017, and we hope to add to that. For this reason, we expect our revenue in 2017 to be broadly in line with our forecast revenue for 2016.

Using slide 10, I explained why we do not believe the high percentage margins achieved in 2015, and year to date in 2016, can be sustained. As the mix of our projects changes, we expect our percentage margin to fall. As a result, our guidance for 2017 is the adjusted EBITDA percentage margin will decrease significantly compared to 2016.

I will now pass you back to Jean.

Jean Cahuzac

Thank you, Ricardo.
Turning to slide 15.
Subsea 7 aims to the partner of choice for our clients for all their offshore engineering and construction activity. We achieve this by executing at the highest standards time and time again, delivering complex solutions that depend upon our expertise and experience. We firmly believe in working collaboratively; indeed, it's one of our company values. To us, this means working closely with our clients and other suppliers to produce outcomes that are better than the sum of their parts. It's our technical and operational credibility, and our good client relationships, that enable us to engage earlier in many projects. This approach continues to allow us to identify cost savings and deliver innovative solutions.

Innovation comes in many forms. Firstly, it can mean new technology, and we have certainly delivered on this, with one of the greatest and fastest-growing collections of patents in our market segment. Secondly, it can mean new practical approaches, such as those we are seeing with integration of SURF and SPS that we are proposing in alliance with OneSubsea. And finally, it can be new contractual agreements, like our long-term partnership arrangements.

Taking each of these in turn, and starting with technology on slide 16.
We have continued to maintain significant investment in technology despite the downturn. In addition to our targeted in-house technology programmes, we are interested in bringing new technology into the Group by acquisition and by forming joint development programmes with industry and universities.

In August, we announced the acquisition of Swagelining. We have worked with Swagelining for a number of years. In the last few years, we have installed over 150 kilometres of water injection pipes in the North Sea with Swagelining's polymer lining, the most recent case being the Maria project for Wintershall. It's our belief that we can introduce this technology to projects worldwide. In addition to its existing commercial application to lower the cost and improve corrosion resistance of water injection pipes, we have the opportunity to develop this technology for future applications in production pipelines.

Turning now to slide 17, and another way we work collaboratively: our alliance with OneSubsea. This alliance, which is operating under the brand named Subsea Integration Alliance, was formed in mid-2015. It embraces the opportunity to lower costs and reduce risks for our clients by combining our SURF services with OneSubsea's SPS offering. The reaction of our clients has been positive, with high levels of interest leading to thirty opportunities to investigate the potential application as an integrated solution. From the thirty engagements, we have already carried out eight paid early engineering studies, delivering detailed analyses of the subsea architecture and installation. We expect project awards in the near future.

Moving on to partnership on slide 18.
As a specialised contractor concentrated on offshore oil and gas, we can get closer to our clients and be more flexible in our approach than larger, conglomerate service providers. Our growing collection of client partnership agreements is evidence of this. We have formed collaborative long-term arrangements with several clients to engage early, and help them to find the right solution for their field development needs. Our most recent partnership agreements, that I have mentioned earlier, is with Aker BP. This particular client-led agreement takes the full SPS-SURF integrated approach, and is based on a new commercial model where the project risks and rewards are shared in a more balanced way between all partners.

Turning to slide 19.
The near-term outlook remains challenging, and the timing of new awards to market is uncertain. However, the rise in the price of oil and lower project costs have encouraged our clients to review their future projects. Assuming that these factors can be sustained, there is cause to believe in an increase of awards to market within the next 18 months. We do not expect a V-shaped recovery, and are prepared for a slow climb back to normal levels of activity.

Slide 20 summarises our views of the outlook for each of our business units.
We offer our clients differentiated services based on expertise and experience, our technology and collaborative approach. We have a highly competitive offering, but our deep-rooted and disciplined attitude to project risk is unchanged. We have added some projects to our list of key active market tenders, reflecting our more positive market outlook. These are just a small proportion of the longer list of projects we are monitoring, representing the most likely large projects to be awarded to market. The timing of these projects remains uncertain, but we see an opportunity for them to be awarded to market within the next 18 months.

As illustrated by this list, some offshore areas are more favourable for near-term development than others. We continue to see momentum on projects to develop gas for domestic consumption. We have already captured significant work offshore Egypt, and we are now looking towards India for the next wave of large development projects, including block 98/2 and KG-D6.

Tie-back projects are in favour with our clients, as these build on existing investments and top-up production facilities as deflation takes effect. Of the projects listed here, Mad Dog 2, Platina, Zinia, Skarfjell and Pil are all tie-backs into existing infrastructure. These long tie-backs are dependent on leading-edge technology solutions to enhance flow and present an opportunity to investigate integrated solutions. This narrows the competitive fields on these projects. We have not yet included in our list any new EPIC projects offshore Brazil, as timing remains uncertain. Brazil has potentially low project break-evens, due to the high production of the pre-salt fields. And we have a long track record of working offshore Brazil, and look forward to engaging with our clients when the opportunities arise.

Moving on to i-Tech services: we have made good progress in our aim to develop this business unit, despite the market headwinds. Rig cancellations have been affecting our third-party ROV services, but we have replaced some of the lost activity with new contracts in Brazil and Australia. The inspection, repair and maintenance market is steady, and we are successfully driving repeat work based on the quality of our execution and client relationships.

We remain active in renewables and heavy lift services, mostly through our joint venture company, Seaway Heavy Lifting. There are a number of substantial renewable energy awards to market expected in 2017 and beyond.

To conclude, we are doing what is needed to remain strong and competitive in this challenging market. The industry-wide changes in development cost, and rebalancing of oil supply and demand, are enabling some projects to move forward to a final investment decision. The last 18 months have been difficult, with low levels of award activity and considerable industry downsizing. During this period, we've been actively managing our cost, and the resizing initiatives we took as early as 2015 are showing results. We remain committed to maintaining our engineering and project management capability during these difficult times, and I'm confident that we'll continue to perform well for our clients. I have no doubt that Subsea 7 is well positioned for when the market recovers.

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

Q&A

Fiona MacClean - Merrill Lynch

Thank you. Yes, Fiona at Merrill Lynch. I have two questions, firstly, on your cash pile. It has increased pretty significantly over the last year or so; I'd like to understand what your motivation is around that cash pile, and what you may do with it? May you return some of it to shareholders, or do you want to keep some of it for any potential moves you want to make in the down cycle?

And then the second question is around the alliance that you have with OneSubsea, and also the one that you announced earlier in September with Aker. Could you just talk around how things are going with those propositions, what the feedback has been from your client base and when you would expect to see actual project awards starting to come through, particularly from the OneSubsea alliance that you have? Thank you

Jean Cahuzac

Ricardo, you want to take the first question on the cash?

Ricardo Rosa

Absolutely, Jean. Good afternoon, Fiona. I want to start by saying that we're very pleased with the cash that operating activities have generated so far this year. I think it reflects very well on our project execution abilities and our focus on capital discipline during this challenging period for our industry. And in terms of how we want to manage our cash, we are constantly evaluating the impact of market outlook. The fact that we have an outstanding bond maturing in 2017, we have some movements that we expect on working capital, as well as significant remaining capital expenditure commitments.

After we adjust for these factors, our main priority remains the disciplined reinvestment in our business, whenever we see value-adding strategic opportunities, and we think that our balance sheet strength allows us to take advantage of these opportunities when they arise. We also think that our balance sheet strength and liquidity has been reassuring to shareholders and stakeholders alike, and has contributed to the upward trend in our share price since the start of the year.

Now, this being said, we have a solid history of returning cash to shareholders, and this remains a constant area of evaluation, both among us in the management team and with our board. Now, I would say that in the past, final decisions on cash returns have tended to be taken after our full-year results are known.

Jean Cahuzac

Thank you, Ricardo. Regarding the second question on where we are with the alliance with OneSubsea and Schlumberger: I mean, the first thing I would like to say is that we are now seeing more and more momentum, and we are working very well on a worldwide basis with OneSubsea Schlumberger. And I mentioned, I think, in my script that we expect in the near future, to have projects awarded in this area.

We mentioned the alliance, the partnership with Aker BP, and Det norske becoming Aker BP. The partnership is with the client, and when the client will sanction this project, I mean, we are expecting more work coming through the frame agreement. The client had already in parallel selected Aker as their supplier for SPS, and there was an opportunity to work with them on these specific projects to see how we could further improve the cost and the results for the client. So, the driver was the client there. It doesn't change our overall approach with OneSubsea Schlumberger on a worldwide basis, and that includes joint projects but also joint technology initiatives.

Andrew Dobbing - Danske

Hi, it's Andrew Dobbing from Danske. I would like to ask a question about costs, please. You have given some guidance about what you expect the head count to do; I think you are saying 8,000 people by early 2017. So, I mean, your headcount is going to be down quite a lot on average in 2017. The fleet is going to be smaller. Now, correct if I'm wrong, but I think the weak pound is helping a little bit as well on your costs. But bearing in mind all these things that are putting downward pressure on costs, is it fair to assume that costs for the Group as a whole should be down in 2017 versus 2016? Now, I realise that the procurement side is hard to measure, and there's a lot of things impacting that. But just to get a steer on – if it's fair to assume that costs should be flat, or perhaps down a little bit overall in 2017. Thank you.

Jean Cahuzac

Thank you, Andrew. The first point I would like to mention is that this cost reduction is to adapt, to adjust the capacity of the company with the forecasted activity but, as we mentioned before, retaining capability. And I insist a bit on that, because it's very important for a company like us to maintain the resources which are required to continue to execute the projects, and prepare the future. So, maintaining capability is something which is, for me, one of the first priorities.

We are seeing a reduction of cost, including reduction of costs of supply chain, for our projects. I think it's fair to say that this reduction of costs is passed to the clients, and therefore doesn't impact our bottom line in a meaningful way.

Regarding the overall impact of the FOREX, do you want to comment, Ricardo?

Ricardo Rosa

Yes, I'm happy to. And in fact, I would like to expand, perhaps, the comments there. I think the weak pound versus the dollar has certainly helped us in terms of reducing our cost bases; we have significant resources that are sterling-denominated. However, I wouldn't overplay that fact, as the costs associated with the running of our vessels and our presence in various countries around the world tend to mitigate that positive impact. And it's something that, anyway, we work towards naturally hedging. So, don't assume that it flows through in a significant way into our margins.

I would emphasise what I have already pointed out earlier, which is that we are doing well – in fact, I would say that we have achieved the annualised cost savings that we targeted in 2015, when we announced our first resizing programme, and that was $550 million a year. And I have a high level of confidence that in 2017 we will see the full benefits of the $350 million annualised reductions that we have been working on this year. Now, some of those benefits have already flowed through to us in 2016, but there is a balance, if you will, that comes through in 2007.

The other thing I would like to point out very quickly is that the external costs, the third-party procurement costs which are linked very much to our project activities and are variable, as a percentage are likely to somewhat increase next year because of the change in mix of projects. And with that, I hand it back to you, Jean.

Phillip Lindsay – Credit Suisse

Good afternoon. I have two questions please. The first one is Beatrice: what was the driver of the accelerated workload in 2017, other than a revenue shift from one period to the next? Should we consider any other financial implication; for example, are there any early completion bonuses at stake? That's the first question.

The second question: are there any specific regions that have triggered the change in tone within your outlook statement? It looks like there's incremental projects in Norway since your last update, perhaps West Africa too with Zinia, but is there anything else behind the scenes? You mentioned Brazil, but that's more of a medium-term potential. Is there anything else – wind farm sector, for example – you could talk to?

Jean Cahuzac

I will let John answer on Beatrice. But, talking about the projects: we mentioned that Brazil, the large EPICS projects are not in the very near term; it will come later, because it's still a low-cost area because of the high production. But the timing of the projects is still difficult to predict, so I wouldn't be able to tell you if Norway will pick up before Africa or before Asia; all that is still not very clear.

But regarding Beatrice, John?

John Evans

Yeah, Phil, good afternoon. Beatrice is six months into the project: we've awarded all our key fabrication contracts, we have awarded the three big fabrication for the jackets as well as the two big fabrication contracts for the piling materials. We also have our cable contractors and our umbilical suppliers all locked down. So, what we have now been able to do is to get the distribution of work between 2017 and 2018 clear; that's what's meant that we have a different proportion of work between the two years. So, for us it's just around liquidating as much work as can possibly do in 2017, based on what we can see today. The project is going well; I had a meeting with the client just recently, very pleased six months into the project with where we're at.

Phillip Lindsay

Okay, and we shouldn't think that the contribution from that project is any different to when you signed it?

John Evans

No, we're comfortable where we are, where we signed it, and that's how we're showing it at the moment.

Amy Wong - UBS

Hi, good afternoon; a couple of questions from me. The first one is just to get a little bit more detail on your cost savings again. The $550 million, and the $350 million: should we think about those as costs that have come out of the non-procurement, non-project-related costs? i.e. labour, head office and whatnot?

And the second question then is on Brazil. Great news that the *Seven Sun* has started operations: could you give us some insight into the new builds to come, and whether the vessels are expected to start on time and according to the same terms and conditions as you agreed with Petrobras when the vessels were commissioned? Thanks.

John Evans

On the vessels first, Amy: yes, we have the final three vessels at late completion in the build programme. So, *Seven Cruzeiro*, we are comfortable with where she is at. She is one of our PLSVs, and she will go into work with Petrobras as we expected under her existing contract in the first half of next year. The two Korean-built vessels: *Seven Kestrel* is due to come out on time, and she will go to work on our DSVi contract in the North Sea next year. And equally, the *Seven Arctic*, the big heavy construction vessel, is being completed in the yard, and we're comfortable with her delivery, and she has work allocated to her in the North Sea, again, next season. So, three remaining vessels; comfortable with our budgets and comfortable with our schedules.

Jean Cahuzac
Regarding the cost saving, Ricardo?

Ricardo Rosa
Yes, good afternoon Amy. You know, we guided on the cost reduction of $550 million in 2015 and $350 million for 2016, but obviously having an impact in the subsequent years. And the costs that we were focusing on are what we would describe as internal costs. They're not the direct costs associated with the execution of a specific project, in other words the third-party inputs if you like. The main cost elements that we have been targeting are obviously the onshore resources and offshore resources; the costs of running our fleet; and we have taken a long, hard look at our facilities worldwide and, to the extent possible, have shaved the way of the cost structures there, and had an appreciable measure of success. So, when you evaluate our cost structure going forward, you should assume therefore that the reductions are associated with our internal cost structure.

Jean Cahuzac
And that includes, obviously, personnel costs reduction.

Mukhtar Garadaghi - Citigroup
Thanks, this is Mukhtar from Citi. Two quick questions, if I may: could you please comment on your project pipeline for the very near term? In particular, any insight on how you are bidding on Mad Dog; whether there is any collaboration with OneSubsea there, and any colour on the bid?

And also, the two Indian projects: how big are they, and any indication of timeline? That will be very helpful as well.

And just in general, when I think about the run rate for order intake. So, if we strip Beatrice from 2016, which you guys said was a one-off, is 2016 a good guidance of where we could be for 2017 in terms of intake? Thank you.

John Evans
Yeah, so on the whole, near-term pipeline, Mukhtar, we're bidding Mad Dog 2 at the moment. A lot of engagement with the client on that one at the moment, so in the right place on those discussions, we feel, at the moment, although they're working very hard with the industry to see how that project will sanction. Feedback from BP is they're reasonably sure that that project should meet their criteria to go through sanction. We have offered a standalone Subsea 7 price, and we've also offered an alliance combination with OneSubsea into the mix. KG-D6 is out for bid at the moment. That's a large project for Alliance in East India. That is out for bid, and we expect to put that price in this side of Christmas, and hopefully get clarifications on that in the first part of next year. 98/2, the timing of that in the near term is slightly less clear, but it should be somewhere between the end of this year and the end of quarter one next year. And again, that's another large East Indian project coming into the market.

Jean Cahuzac
Regarding the 2017 order intake, it's difficult to answer your question. I mean, it's clear for me that we are seeing more interest from clients who are resurrecting projects and asking us to relook at engineering and getting ready to update pricing. But as we said before, I mean, we're talking about the foreseeable future and the next 18 months. I mean, I wouldn't be able to tell you exactly what's going to be awarded quarter by quarter; that's still very difficult to say.

Mukhtar Garadaghi
Sorry, Jean, just to follow up on that: do you see anything the size of West Nile Delta within that mix? I'm just trying to think about the Indian projects. Is there anything sizeable? Because a lot of the projects you're talking about are tie-backs. You know, just in terms of order of magnitude, are these $500 million, are they $1 billion projects?

Jean Cahuzac

Most of the projects that we see today are tie-backs on marginal field developments. I mean, they can be of different size. Some of them can be large. 98/2 is a very large project. Taking into account the process in India, it's still difficult to put an exact timing, but 98/2 is probably the largest one.

David Farrell - Macquarie

Hi, thanks. Two questions from me. Firstly, in terms of the eight early engineering studies that have been fully undertaken now, can you give us an update on the status of those? How many have actually moved forward into the tendering process?

And then I just wanted to clarify in terms of the backlog for execution in 2018, that was down by $400 million. Is that entirely to do with Beatrice being accelerated? Thanks.

Jean Cahuzac

Yes, for 2018 it's actually matched the acceleration of the timing of – execution of recognising the number on Beatrice.

John Evans

Shall I take the study question, Jean? You know, we've worked on a number of studies. Obviously, I'm not going to tell you where each one is, but we are in a number of discussions with clients that result from those about possibilities on projects that go with it. So, it's a format which works quite well, because it allows us to get into an engaged discussion about the specifics of their fields, it allows clients to look at different scenarios. And, as we mentioned earlier in Jean's statements, we do believe that we will see an award for ourselves and our partners in this field in the near term.

Michael Rae - Redburn

Yeah, hi there. Thanks very much for taking my question. Can you just give us a bit more colour on the utilisation of the JV vessels next year? Will both of the Seaway vessels work on Beatrice, and is there a contract lined up for the *Sapura 3000*? Thanks.

Jean Cahuzac

John?

John Evans

Yes, Beatrice utilises both SHL assets at different phases next year for installation on Beatrice on the plan that we've now drawn up; one earlier and one later in the year, so we have some other activities for the *Oleg Strashnov* to do earlier in the year. On the *Sapura 3000*, she has some work at the start of the year and then we're bidding some work later in the year.

Christopher Møllerløkken – Sparebank 1

Yes, good afternoon, gentlemen, this is Christopher Møllerløkken from SpareBank 1 Markets. In terms of the Beatrice project, could you just remind us again how this is being booked? It's part of the corporate backlog, but isn't it fair to assume that this will be booked as the associate line and not be part of the 2017 revenues? Or will you book it in 2017 revenues as well?

Ricardo Rosa

Yes, Christopher, good afternoon. Subsea 7, as the contractor for the Beatrice project, will be booking the revenues and costs associated with the execution of the Beatrice project. Seaway Heavy Lifting is the main subcontractor because of the vessels that are utilised, and the profits that Seaway Heavy Lifting generate will be picked up in our Group financial statements through the share of net income in associates and joint ventures.

Jean Cahuzac
The way the project is executed is in partnership with SHL, and we have a commercial relationship with SH on this particular project.

Christopher Møllerløkken
In terms of the SHL company, there was news earlier this autumn that your partner was looking to exit. Have you considered taking full ownership of this company?

Jean Cahuzac
As you can imagine, I can't really comment on the plans of our partners. It's really – they're the ones who are looking at what the best options are for themselves, and I wouldn't comment on that.

Christopher
Okay. Then final question: you mentioned the KG-D6 project in India. Reliance recently received a $1.6 billion claim from Indian authorities; do you see this as a risk that the project timeline can slip?

Jean Cahuzac
The information we have at this stage – things can always change – the project seems to be on track.

Jessica Alderson – Morgan Stanley
Hi, yeah. Two questions from me, if I may. My first question is a follow-up to a couple of the other questions that we've had. So, when you say that you expect main contract awards from your bidding with OneSubsea in the near future, how early could this be? Could this be Q1 next year?

And my second question is: I know you said project close-outs will start to tail off next year, but are you expecting to see more project close-outs in Q4? Thank you.

Jean Cahuzac
Regarding the joints projects with OneSubsea, we're talking about in the coming months. It's difficult to put dates, but there are a number of projects, so I would be surprised if several of them don't materialise in the near future.

Regarding the projects closing: John, do you want to comment?

John Evans
The main message we're giving here is that the very large projects that we picked up two or three years ago are all pretty much coming to an end at the moment. We will have certain projects closing as we do the last tie-ups of this year's work, but a lot of that has been reflected in our quarter three positions. And next year, the only work that we have primarily coming to a close is some of our work in Egypt.

Haakon Amundsen - ABG
Yes, hello guys. A couple of my questions were answered, but just to make sure I understand the working capital situation: did you signal that you were going to see more cash outflow for working capital in 2017?

Ricardo Rosa
Haakon, good afternoon. I haven't made any comments yet about 2017, and that guidance will be provided to you on our next earnings call. As I mentioned very early in this year, when we provided some initial guidance on net working capital movements, it's a very difficult number to pin down, because there are a lot of variables that comprise it. As I've already commented, we overestimated, if you will, the outflow that has taken place year to date, and as a result we have adjusted our guidance for 2016. Nevertheless, I remain firmly convinced that the underlying trend is for a part reversal of our – a negative position as we close out on the main projects.

The trend is somewhat obscured by the short-term movements in certain liabilities, and in particular that associated with our restructuring provisions, which obviously are going to be liquidated or utilised in the coming few months.

Frederik Lunde - Carnegie

Hi, congratulations on a very strong quarter. I think this marks the seventh consecutive quarter you exceeded your own guidance and consensus, by quite a wide margin. My question is really how to think about your outlook for 2017. And I know you don't want to comment too much on this, but are you applying the same level of prudence in your guidance for 2017 on the margins as you did when giving guidance for 2015 and 2016?

Jean Cahuzac

Our comments regarding margin for 2017, I mean, reflects what John alluded to, which is that we have a number of very large projects which will be 100% complete in 2016; most of them in Q3, not all of them in Q3. And besides Egypt, we're not going to have such large projects in 2017, so that will have a significant impact on the margin.

Frederik Lunde

But on the positive side, you'll have also more contributions from the PLSVs, which are high margin, and you will see also the full effect of the cost reductions. So, does this mean margins returning to ballpark the 20% level we've seen before 2015? Is that a fair assumption?

Jean Cahuzac

We're not going to comment on the 2017 margin, besides the fact that they will be significantly lower.

Frederik Lunde

I'm so sorry, but you said the same thing last year for this year, and you massively beat your guidance, which is a good thing. But just to reconcile the numbers here a bit: what is the range? Because the way you communicate now, you don't give any floor.

Jean Cahuzac

We'll see if we can be more specific at the end of the year, on to the next earnings call. But I think at this stage, I wouldn't go further.

Frederik Lunde

All right, just keep it up on the operations side. It's been fantastic, and I look forward to the future. Thanks.

Kévin Roger – Kepler Cheuvreux

Good morning. Just maybe one follow-up on your EBITDA guidance margin. You are expecting a number of tie-back projects to be sanctioned in the coming months; those tie-back projects are very fast track. Should we assume that those kind of projects, the competition is much less fierce; that the EBITDA margin on these kinds of projects is stronger than on greenfield projects?

Jean Cahuzac

I mean, the competition on tie-backs is strong, taking to account the few projects which are available. I mean, we are seeing more tie-backs as potential projects in the future. Nevertheless, there is still a very strong competition on every other job, so that puts pressure on margin and that will continue for some time.

Kévin Roger

So, can we assume that the margin would be lower than on greenfield?

Jean Cahuzac

Well, it depends. Greenfield, I mean there are not so many large projects when you talk about the very large projects, and it depends on the projects where they are. But I mean, definitely on smaller jobs there is more competition, and therefore more pressure on margin, yes.

James Evans – Exane BNP

Yeah, good afternoon. Thanks for squeezing me in. A couple please. Firstly, PLSVs: I mean, I know you've done a lot of work with Petrobras working on the longer-term demand requirements, and there's been a lot of speculation what that number is. I just wondered if you could share what your views are on longer-term requirements for general fleet use, rather than use specifically based upon the work you've done?

And then secondly, I wanted to ask a little bit of Life-of-Field and i-Tech; obviously, a pretty good performance through this year compared to some of your other listed peers. And I just wanted to get a sense to what extent the downward pricing has already been reflected in this business? I know obviously there's a slightly different profile of work to EPIC business. So, any colour you could provide on that would be very helpful. Thank you.

Jean Cahuzac

Yes, I mean regarding the PLSVs, I think probably the best way to answer your question is to quote Petrobras, who are obviously fully on top of their programme. Solange's quote I think was, 'No significant change in their PLSV needs.' And when you look at the type of work which is done by the PLSV – which is not only the new project, but also the maintenance or replacement of existing lines – it seems to be a really good scenario. I think there will be a long-term requirement for PLSVs.

Regarding Life-of-Field, John?

John Evans

Yes, one answer might be as we saw in the Petrobras five-year plan about Marlim field redevelopment. Marlim field is a lot of picking up the existing lines, reconfiguring them and putting them back down again. As Jean says, we do a lot of that work today, so we do as much work in pre-salt as we do in Campos Basin, and Santos as well. So, that type of work appears to be continuing as Petrobras as well.

In terms of Life-of-Field, could you just give me the question again there, James?

James Evans

Yeah, I was just wondering to what extent the tougher market conditions around pricing are already reflected in your results? Because obviously, the profile of the work there is different to EPIC, and I'm just wondering if we're closer to a new baseline there than we are in the more project-driven activity?

John Evans

I guess the benefit of a life-of-field is we have a mix of different clients where we work on one site on oil rigs, the other on life-of-field client work. So again, we have a different pattern of renewals on some of that work. But I think it's fair to say, as Jean said, that the competition is pretty fierce in all areas that we're working in today, and we take each and every renewal of an ROV or renewal of a life-of-field contract, as well as any major SURF contract, very seriously. And there is a lot of competition out there in that sector as well, with that one.

Jean Cahuzac

Yes, and just very quickly; I mean, we'd like to thank everybody for participating in the call. I think today, when I look at Subsea 7, I must say that I'm very pleased with what the team has achieved; not only in terms of cost reduction, but also a way of working. We are today an efficient company, and we are able to maintain the capability and expertise, not only to continue to deliver during the downturn but really to be there when the market picks up.