Subsea 7 S.A.

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

Isabel Green

Welcome everyone, and good afternoon. 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 slides that we'll be using on today's call. Before I hand over, I'd just like to refer to the forward-looking statement slide, number 2; similar wording is also included in our press release. I will now hand over to Jean.

Jean Cahuzac

Good afternoon, and welcome to our first quarter results conference call. I will begin with the highlights of our performance during the quarter and the outlook for our business in the year ahead, before handing over to Ricardo who will cover our financial results in more detail. I will conclude with a summary of our recent progress in achieving our strategic objectives, and then we will open the line for questions.

Turning first to the highlights on **slide 4**. Revenue was $897 million in the quarter, 20% higher than the prior-year period. We progressed well with the Beatrice Wind Farm project, which more than offset the lower activity on oil and gas projects. Adjusted EBITDA at $268 million resulted in a margin of 30%, delivered as a result of excellent execution, innovative ways of working and strong cost discipline. Diluted earnings per share was 41 cents. We invested in strengthening and extending our differentiated service, while maintaining our strong financial and liquidity position. We had $1 billion net cash as at the end of the quarter. Our acquisition of the remaining 50% of Seaway Heavy Lifting that we didn't already own was completed in March, and is included in our reported results today.

We achieved 65% active vessel utilisation in the first three months of the year, slightly lower than the prior year, with fewer projects offshore in the quarter. Total vessel utilisation was 55%. We received three new-build vessels into our fleet in January, completing our investment programme. *Seven Cruzeiro* commenced work offshore Brazil in January; *Seven Arctic* and *Seven Kestrel* carried out crew familiarisation exercises in the quarter, and since then have started operations in the North Sea.

Order backlogs stood at $5.7 billion at the end of March, unmoved from the year-end position, as executed work was replaced by order intake and the consolidation of backlog from Seaway Heavy Lifting. The challenging industry conditions have not changed since we spoke to you in March, but what is encouraging is that we are working on early engineering studies and seeing increased client engagement. As we have said before, the pace of recovery is expected to be gradual. We believe many offshore projects are viable at the lower oil price, enabled by the progress made by the industry on cost reduction.

I turn now to **slide 5**, to look at some of our recent operational progress in more detail. Offshore Egypt, the West Nile Delta Phase One project was substantially completed in the quarter, with first gas achieved ahead of schedule. The platform extension and tie-in project for Burullus, and the Atoll project, both progressed well. Our bundle fabrication facility in Wick was busy despite the winter conditions, with three bundles launched in the quarter: two for the Western Isles project, and one for the Callater project. Offshore Brazil: our latest PLSV to join the fleet, *Seven Cruzeiro*, started her long-term day-rate contract. However, the contract for *Seven Mar* was terminated early, when her permit to operate was blocked as a result of local content rules. *Seven Waves* is still expected to return to Brazil at the start of the third quarter, when repairs to the damaged lay tower have been completed. Offshore Australia: the Persephone Phase 3 project was substantially completed. In the US Gulf of Mexico, the Stampede and Coulomb Phase Two project progressed well. The Beatrice Wind Farm project also progressed well with procurement and fabrication.

Slide 6 shows our Subsea Integration Alliance activity in more detail. We are working at the forefront of the development of integrated SPS and SURF services. In the fourth quarter of 2016, we were awarded our first integrated contract for the Dalmatian field. This project has started well, and through collaboration and the elimination of bottlenecks we are establishing better, more cost-effective ways to work together. In the first quarter 2017, we were awarded the Mad Dog 2 project, also in the US Gulf of Mexico. This is the largest integrated award to date, with 89km of pipelines and 22 wells. We see significant potential for integrated projects going forward. Clients' interest is growing, and we are developing and deepening our relationship with OneSubsea. We expect to realise additional cost savings, further reduce interface risk and collaboratively deliver technological innovation.

Moving on to **slide 7** to look at our backlog. We ended the first quarter with order backlog of $5.7 billion. This reflects the inclusion of $285 million of renewable backlog gained through the acquisition and consolidation of Seaway Heavy Lifting, and the consolidation of $106 million related to the PLSV *Seven Mar.* New awards at $626 million primarily reflected the Mad Dog 2 project awarded by BP and the Sole project awarded by Cooper, both announced in the first quarter. Unannounced awards included a call-off order under a frame agreement for diving services, and smaller awards for i-Tech services and renewables.

Slide 8 lists some of the larger project tenders that we expect may be awarded to the market in the foreseeable future. In Norway, we are engaged in FEED studies for the Pil and Bue project for VNG, as well as the Skarfjell project for Wintershall. In South America, the Liza and Peregrino projects are currently being bid. The Zinia and Zabazaba projects in West Africa, and the Golfinho gas project in East Africa, are being evaluated by the respective clients. We remain positive on the development outlook for gas for domestic consumption in India, with Reliance's plans for KG-D6 and ONGC's plans for block 98/2. i-Tech services is seeing improving conditions for IMR and frame agreements in the North Sea. Renewables and heavy lifting activity remain centred on EPIC opportunities for offshore wind farm installation.

As we mentioned back in March, we expect a gradual market recovery, and anticipate an increase of awards to market within the next 12 months. Even so, most of the projects we have mentioned here are not expected to award SURF contracts until late 2017. In the near term, we anticipate continued high levels of competition on project tenders. We also expect that our collaborative approach to client relationships, as well as our strong and differentiated offering, will allow us to secure our fair share of new project awards. As we mentioned before, our discipline stance on the appropriate project risk profile has not changed and will not change. I will now hand over to Ricardo to discuss our financial results in more detail.

Ricardo Rosa

Thank you, Jean and good afternoon everyone. Let's first look at the income statement highlights on **slide 10**. First quarter revenue was $897 million, 20% higher compared to the prior quarter, mainly due to an increase of $218 million in renewables, reflecting good progress made on the Beatrice project. This was partly offset by a 6% decline in SURF activity, with fewer large projects in execution and a 27% reduction in i-Tech services. Adjusted EBITDA was $268 million, 6% lower year on year. This included a $7 million loss from associates and joint ventures, reflecting lower levels of offshore activity. The change in mix of our work was reflected in our adjusted EBITDA margin of 30%, down 8% points from the prior year period. While we continued to benefit from strong execution and cost discipline, the lower number of large SURF projects and increased renewables activity impacted the Group's margin in the quarter. Net Operating Income was $169 million, a decline of 13% from the prior year quarter.

We recognised a non-cash gain of $42 million on a business combination. This resulted from the acquisition in March of the 50% interest in Seaway Heavy Lifting that we did not already own. Accounting standards required us to re-measure our pre-existing 50% stake to fair value, with a difference to carrying amount being recorded as a tax-free gain. For the first two month of this year, Seaway Heavy Lifting was treated as an equity accounted joint venture. In March, it became a fully consolidated, wholly owned entity. Upon acquisition, we recognised $483 million of net assets at fair value and goodwill of $42 million. Our effective tax rate was 29% for the quarter and net income was $146 million, in line with the prior-year period. Diluted earnings per share was 41 cents, of which 12 cents resulted from the re-measurement gain.

Slide 11 shows the revenue and net operating income by business unit. In our SURF and conventional business unit, first quarter revenue of $602 million was down 6% on the same quarter in the prior year. Activity in West Africa and the North Sea was lower year on year, as some large projects in these regions were completed in 2016. These declines were partly offset by increased activity in Egypt and the positive impact from the additional of the new-build vessels, *Seven Sun* and *Seven Cruzeiro*, to our fleet of PLSVs. SURF net operating income of $151 million benefited from good execution, a low cost base and de-risking of projects. There was a 10% decrease in net operating income year on year, as a change in our mix of work started to impact our margins. I-Tech services revenue was $76 million and net operating income was $11 million, 27% and 28% lower respectively compared to the prior year. Inspection, maintenance and repair activity increased in Australia, but this was more than offset by lower activity in the North Sea and Gulf of Mexico.

We have introduced a new business unit this quarter, for our renewables and heavy lifting activity. The results generated from Seaway Heavy Lifting are included in this business unit, having previously been reported in our corporate segment. Renewables and heavy lifting generated revenue of $220 million, compared to $2 million in the prior year period. This was mostly from the Beatrice project, which progressed to the procurement and fabrication phases in the quarter. We have reported a net operating loss of $4 million, due to the low utilisation of the two heavy lifting vessels in the winter months. For reference, we have provided re-presented segmental results by quarter for 2016 in the Appendix to this presentation. SURF and conventional and i-Tech services have been re-presented to include their share of offshore resource management and asset impairments, which were previously categorised under the corporate segment. The renewables and heavy lifting segmental results included Seaway Heavy Lifting on an equity-accounted basis for the year.

Slide 12 summarises our cash flows in the period. Cash of $1.9 billion at the end of March represented an improvement of $196 million on the position at the end of December. This included an increase in borrowings as we drew down $301 million, available under the ECA facility, on delivery of the *Seven Kestrel* and *Seven Arctic.* We generated $65 million in cash from operations, with good first quarter EBITDA performance largely offset by movements in working capital. We reported an outflow of $194 million related to our net operating liabilities, which decreased substantially in the quarter as certain projects neared completion.

The acquisition of Seaway Heavy Lifting in March resulted in a net cash outflow of $111 million. This reflected an initial cash consideration of $279 million, partially offset by the consolidation of $168 million in cash on Seaway Heavy Lifting's balance sheet. The Group's balance sheet at quarter end included net operating liabilities related to Seaway Heavy Lifting of approximately $190 million. Our financial and liquidity positions remain strong. At the end of March, we had borrowings of $858 million, comprising the outstanding balance on the convertible bond, the ECA facility and the multi-currency term loan assumed on acquisition of Seaway Heavy Lifting. This resulted in the net cash position of $1 billion dollars at the quarter end. In addition, we have continued access to the unutilised revolving credit facility of $750 million.

Slide 13 sets out our guidance. We have updated our guidance to include the consolidation of Seaway Heavy Lifting, and to reflect our performance year to date. We continue to expect revenue in 2017 to be broadly in line with the revenue reported last year. Adjusted EBITDA percentage margin is expected to be lower than last year. We have raised our guidance to reflect continued benefits from cost savings, innovation and more efficient ways of working, particularly on EPIC lump-sum projects. We have updated our effective tax rate guidance to between 28–33% for the full year 2017. This is substantially lower than our previous guidance, reflecting re-measurement gain on the acquisition of Seaway Heavy Lifting, as well as the impact of its relatively low effective tax rate. This rate performance also reflects our updated EBITDA margin guidance. Our effective tax rate is sensitive to pre-tax profitability, owing to the structure of tax regimes we operate under in certain jurisdictions.

We have increased our guided range for the full year 2017 for administrative expense by $20 million, and depreciation and amortisation by $40 million, to reflect the inclusion of Seaway Heavy Lifting. The revised ranges are $210–230 million and $410-430 million respectively. Our capital expenditure forecast includes Seaway Heavy Lifting but is unchanged, at the range of $160–180 million. I will now pass you back to Jean.

Jean Cahuzac
Thank you, Ricardo. Let us turn now to **slide 15**. We are delivering good performance as the result of our decisive and early action to adapt to the lower oil price environment. We are engaging earlier and delivering better, lower-cost solutions for our clients. We have enhanced our market-leading capabilities, invested in our fleet and expanded our presence in the renewables and heavy-lifting market.

Slide 16 illustrates how we can reduce our clients' budget uncertainty by early engagement with our FEED and concept engineering alliance, KG7. Engaging early reduces project cost and uncertainty by compressing the time to project sanction. When we are present from the start, together with our alliance partners, KBR and Granherne, we can influence the design to ensure an optimal solution first time, eliminating costly design reiteration for our clients. We are seeing an encouraging increase in early engagement in the market. We expect this to help drive more project sanctions and, once awarded, help projects to achieve their planned solutions, thereby reducing the risk of overspend and delays.

Moving on to **slide 17**, which covers the growing offshore renewable market. Offshore wind farms are delivering clean energy solutions at increasingly competitive price per megawatt hour. We believe this market will continue to grow, supported by government policies and the need for alternative power sources to replace ageing generation capacity. Economies of scale are driving change, with more turbines per wind farm and a trend towards larger turbines, each with greater power-generating capacity. The complexity and size of the installations are increasing the need for alternative solutions, and the larger foundations require higher-specification heavy lifting vessels. Seaway Heavy Lifting has installed hundreds of wind turbine foundations, with experience of mono-pile and jacket solutions. Seaway Heavy Lifting also has an enviable record in installing offshore substations on many European wind farms. Our increased presence in this growing market diversifies Subsea 7's client profile and enables Seaway Heavy Lifting to grow its market share.

Turning to **slide 18**. We completed our latest new-build vessel investment programme in the quarter, with delivery of the remaining three vessels: *Seven Cruzeiro, Seven Arctic* and *Seven Kestrel.* We take a cost-conscious stance on retiring and returning vessels that are aged or surplus to requirement. This quarter, we returned *Normand Oceanic* at the end of its charter period. As part owners of the vessel, we are glad to confirm that it has since been chartered to a third party. We have scrapped *Seven Discovery*, a 27-year-old dive vessel, and plan to retire *Rockwater 1* from service this year.

As a result of this disciplined approach, we have one of the most modern and versatile fleets in our market. Over two thirds of our fleet is less than 12 years old. We cover seven distinct operation categories, with a range of capabilities within each one. Our fleet strategy is clear: we choose to own our high-specification core assets, which ensures that we have control of our vessel design and functionality, so that we have the right capabilities at the right costs. And then we charter additional capacity and lower specification vessels as required, maintaining flexibility to scale up or down to match client demand.

To conclude on **slide 19**: the market outlook has not changed, with challenging conditions and a gradual market recovery anticipated within the next 12 months. We have taken action on cost, formed strategic alliances and then announced our differentiated market position. It has supported excellent execution, and enabled us to win a good share of the available work. The long-term outlook for offshore energy is intact. The changes we have made to lower the cost of offshore development have been highly effective, and the improvements do not stop here. We believe integration, early engagement and innovation will deliver the sustainable cost reduction needed to remain commercial in a low-oil-price world. And now John, Ricardo and I will be pleased to answer your questions.

Q&A

Operator
Our first question comes from Fiona Maclean from Merrill Lynch. Please go ahead, your line is now open.

Fiona Maclean
Hi, thank you. I have two questions please. Firstly, in terms of the oil price environment that we're facing this year, and the fact that you have been so strong at reducing and managing costs in your business, can you give us an indication of – would you feel you would have to do even more cost management if the oil price was not to rise sustainably above $55 for the rest of the year, and obviously the implications that would have for your order intake?

And secondly, in terms of future awards that you're bidding on, could you give us an update on Liza please? Thank you.

Jean Cahuzac
Regarding your first question, remember that when we actually decided to adapt capacity to what we are seeing, in line with the evolution of the market, we also committed to remain capability. And we are going to continue to keep the capability to be able to deliver the projects, win the jobs and then take opportunities when the market picks up; that hasn't changed. We foresee further cost reductions, but which will be linked to further improvements in our process and new way of working. So, we will continue to work on that. It will be a gradual improvement. What is encouraging is, even at today's oil price, what we are seeing is that the initiative taken by the industry and by Subsea 7 goes to make more and more projects viable, and we see an increased interest of the clients to actually reopen files and consider projects in the future. That will be a gradual improvement, but we see some light there.

Regarding the future awards, we are not commenting on an individual project basis. Liza is a project which is very likely to go ahead, and the commercial reviews are ongoing so we will have more information, I suspect, in Q2.

Fiona Maclean
Okay, that's it for me. Thank you very much.

Operator
Thank you. Our next question comes from Andrew Dobbing from Danske Bank. Please go ahead, your line is now open.

Andrew Dobbing
Yeah, hi, it's Andrew Dobbing from Danske Bank. A couple of questions please? First of all, a simple question. It looks like West Nile Delta Phase One finished early. You haven't been very specific on when phase two, or at least the offshore phase of part

two, should start. Can we expect that to start early? I mean, should we see a big gap between this completion of phase one and the start of phase two?

And the second question is: we always see a seasonal, sequential improvement in profitability from Q1 to Q2; at least the work I've done, it looks like utilisation has been particularly strong recovery from Q1 into Q2, and I guess we're going to get the benefit of the vessels working on Beatrice in Q2. So, it kind of indicates that that margin improvement from Q1 to Q2 could be even stronger than it is typically. Is there anything to suggest that's not going to happen this year? Thank you.

Jean Cahuzac
Andrew, thank you for your question. I'm going to let John answer to your two questions. I just want to make one general comment: I think you have to be cautious to look at our business on a quarterly-per-quarterly basis. I mean, you can have variation from one quarter to the other; what is important is the trend, and what happens at the end of the year. John?

John Evans
Yeah, just to carry on with Jean's point there. In quarter one, we benefited from the *Seven Oceans* work in in the Gulf of Mexico on Stampede and on Coulomb, as well as our heavy construction vessel working in Australia. Those assets are now re-deploying back to the North Sea, so as you said there Andrew, we will see those assets deploying into the North Sea, which is what we expect with the seasonal fluctuations that we see. But as Jean says, measuring us on quarters, as we all know, is not the easiest of tasks.

If I look at West Nile Delta, we have completed phase one. Phase two starts this year with the shallow-water pipe lay. So, we will use *Seven Antares* this season to do the shallow water pipe lay on that from the shore approach, out to a deeper-water location. So, we do all the construction work onshore this year and the work to the handover point, and then next season we have a further *Seven Borealis* campaign, which is reasonably similar to Taurus and Libra [West Nile Delta Phase One] in terms of work scope and the work type. So, we will be doing GFR's [West Nile Delta Phase Two] deeper-water phase in 2018, but the shallow-water phase in 2017.

Andrew Dobbing
Is it fair to assume that the utilisation of vessels on West Nile Delta Phase Two in Q2 will be less than what it was on phase one in Q1?

John Evans
Yes, we're only using the *Seven Antares* this year on GFR [West Nile Delta Phase Two]. So, *Seven Borealis* is not working on [West Nile Delta Phase Two] at all this year.

Andrew Dobbing
Thank you.

Operator
Thank you. Our next question comes from Phillip Lindsay from Credit Suisse. Please go ahead, your line is now open.

Phillip Lindsay
Yeah, good afternoon guys, and congratulations on another astonishing quarter. I've got two questions, please? The first one, just on the PLSVs: I know you've always said that the contracts were solid and you didn't suffer any concessions through the downturn, but what I'd like to get is a sense of profitability versus history. So, not specific numbers, I know you won't disclose those, but directionally: does the PLSV fleet today produce higher margins than two to three years ago? That's the first question.

Jean Cahuzac
What I would say is that the PLSVs, and in particular the new-build PLSVs, are delivering the results as per our initial assumption when we decided to embark on this new-build programme, so no bad surprise there.

Phillip Lindsay
And then clearly, the guidance has changed on the back of Q1 and the SHL consolidation. Are you prepared to give us a sense of what the greater driver of this was? Was it more just another really excellent SURF and conventional margin print, or did SHL have a greater bearing on this? Thanks.

Jean Cahuzac
No, I would say there was, again, no surprises in what happened. But we are continuously monitoring what's happening on the market and the timing of some of the projects, which can vary from one quarter to the other. So, this update of the guidance is based on updated views three or four months after we made the previous announcement. What I would like to highlight, and we've said it before, but our delivery of projects remains excellent, and that explains it. Ricardo, do you want to add a comment?

Ricardo Rosa
No, I think Jean, you've covered it well. I think the fact is that we are very pleased with the impact that our cost reduction and resizing efforts are having on our margins. I think that we have an internal cost base that is competitive, very competitive, and we are still getting attractive prices from the supply chain. We are not seeing pricing pressures there at the present time. And that, compounded with good execution and de-risking, is allowing us the perspective to revisit our guidance for the year.

Phillip Lindsay
And just one last one from me, please. On Mad Dog 2, I think maybe perhaps one thing that surprised the market was the contract value; I think most were assuming it was going to be a bigger number. But I'd just like to get a sense of how the contract structure and the terms and conditions may differ from traditional SURF contracts in the past? Is your scope strictly lump sum? Perhaps you can just elaborate on that, please.

Jean Cahuzac
So, John, do you want to cover that?

John Evans

Yes. So, Mad Dog, as we all know, went through an extensive amount of re-formatting in terms of the field layout, what's in the scope and suchlike, through an iterative process with BP long before the bid came out. So, what used to be Mad Dog a couple of years ago has a very different feel today. So, BP have done a lot of optimisation in layouts and suchlike. Our work is lump sum, and we have an agreement to manage the interfaces between the SURF and the SPS, between our package and OneSubsea's package. But it's work that we've done before, work that we're very comfortable to do, and the general contract terms are very much in line with BP's standard terms.

Phillip Lindsay

Okay, super. Thanks guys, well done.

Operator

Thank you. Our next question comes from Rob Pulleyn from Morgan Stanley. Please go ahead, your line is now open.

Rob Pulleyn

Good afternoon gentlemen. A few questions if I may? Firstly, could we try and put a little bit of – or certainly I'll ask if we could put a little bit of colour around exactly what this guidance change leads to? So, if I look at consensus numbers, they are looking for around about 1,500 basis points of EBITDA margin contraction, versus the clean number in 2016. Now, would you consider that down or significantly down, just to try and bracket how we should be thinking about this?

Secondly, in terms of the guidance for revenue: if I add up the one quarter's revenues plus the $2.7 billion in backlog you have, it seems like you're done for the year. Is the interpretation we should take that you'll win nothing else for execution in 2017?

And thirdly, a little bit of a detailed one, but if I look at the balance of the construction contracts' assets and liabilities on the balance sheet, they fell from a net liability of $457 million at the end of 2016 to $271 million at the end of the first quarter. I was wondering what drove that, and whether we should interpret that as being procurement on Beatrice? Thank you.

Jean Cahuzac

I can take the second question first. I mean, when we talked about additional work being awarded in 2017, one thing you have to consider is the lag time between the contract award and the execution. I mean, we are seriously considering that there could be more work coming in, and that's why we adjust our guidance when things happen. But there is always some lag time there, and in particular on the timing of the offshore activity, which is traditionally up to six months or a year or 18 months later.

John Evans

So generally, Jean, I think call-off type arrangements in the North Sea may be some of the new work we'll get. Newer work that we'll get beyond that will probably be for execution beyond 2017.

Jean Cahuzac
Yeah, absolutely. Regarding our guidance, I think the message we are sending is that we've seen some improvement over the last three or four months on what was going to happen in 2017.

Ricardo Rosa
And picking up on your question on networking capital there, Rob: we did generate relatively low operating cash in the quarter, it was about $65 million that we've shown in our financial statements. And this was driven by a – we had good EBITDA, but it was largely offset by a reduction of $194 million in our net operating liabilities in the quarter. And as we've discussed on previous quarters, it's a swing in net working capital that we have been expecting, and we've always been factoring it into our cash flow projections. And it was driven this quarter by a combination of two main factors. The first one was certain SURF projects nearing completion. I mean, we've had some that have had very significant POC [percentage of completion] progression and very close to 100%. As well as the funding of fabrication activity on Beatrice; we received a number of client milestones in Q4, and we are now utilising those funds to execute the fabrication phase. And when I talk about fabrication, I mean the fabrication of the foundations that we intend to start installing now in Q2. So, it's a combination of those two elements.

So, on top of that, going forward we expect probably a further reduction in our net operating liability position. But with the reduction in our capital expenditure commitments on the completion of the new-build programme, and the fact that we still have our RCF undrawn, it certainly isn't a concern for us.

Rob Pulleyn
Okay, thank you very much. And sorry, Ricardo, if I may, just follow up on that, just so we can try and understand the mix dynamics of what's going on in the revenue. Would you be able to let us know how much procurement on Beatrice for those – how much work, or how much revenue on the fabrication actually happened to Beatrice in Q1, just to get an idea of the business mix?

Ricardo Rosa
Rob, we don't give that level of granularity in our guidance. I mean, what we have said on a number of occasions is that the procurement element of the Beatrice contract, which as you know in total is worth approximately $1.3 billion, is higher than what you would expect for average procurement on a traditional SURF project.

Rob Pulleyn
Okay, fair enough. I'll turn it over, thank you very much.

Operator
Thank you. The next question comes from Frederik Lunde from Carnegie. Please go ahead, your line is now open.

Frederik Lunde
Congratulations on yet another very good quarter. I'll refrain from asking about share buybacks, but if I could, I'd like to ask about what you are seeing in terms of the spot market in the North Sea this summer?

Jean Cahuzac
John, do you want to go?

John Evans
Yeah, I think it's early for us at the moment. We're back out working in the North Sea on our inspection, repair and maintenance activities. Generally, the spot market tends to heat up towards the back end of the season, around July and August, when all our clients have done their inspections and looked at what they've got and we see what happens there. So, at the moment, our North Sea is reasonably structured as we see it today, with workload against drawdowns on our framework agreements, on inspection, repair and maintenance and the Capex work that we're doing at the moment. So, I think we just wait and see, to see how that develops. We have some diving capacity that can be deployed in terms of the assets we've got out there at the moment, to pick up some of that capability. But we don't expect to see any major changes on the Capex front for this year, Frederik.

Frederik Lunde
So, could you comment on the *Seven Phoenix* and the flag blocking? Can you confirm that the risk of flag-blocking now is off?

John Evans
I wish I could say that the risk of blocking Brazil was always off, but I don't think I would answer it that way, Frederik. We are working today on the *Phoenix*, but again, as each renewal comes up on our licences in Brazil, there is always that potential opportunity.

Jean Cahuzac
One point maybe to add is that we don't have a concern on the new builds, which have higher specification and cannot be replaced with Brazilian flag vessels with similar specifications.

Frederik Lunde
Great. And a final question: any news on EMAS? Are you seeing any sort of timeline or increased likelihood of that transaction becoming more than a loan?

Jean Cahuzac
You know, I mean, every Chapter 11 process is very complicated. We are participating in the de-financing, as we mentioned. The future will tell if some opportunities are made available; it's premature to conclude.

Frederik Lunde
Great, thank you.

Operator
Thank you. Our next question comes from Christopher Møllerløkken from SpareBank1 Markets. Please go ahead, your line is now open.

Christopher Møllerløkken

Yes, good afternoon gentlemen. You did pay an extraordinary dividend this year; would you, like your competitor TechnipFMC, consider in starting with a quarterly dividend?

Jean Cahuzac
You know, I would let our competitors answer themselves to what makes sense, what doesn't make sense for them. Ricardo, you want to add something?

Ricardo Rosa
Yeah, I think Christopher, that what you have to bear in mind is that, with the merger with FMC, and perhaps their increased US exposure, my suspicion is that they have moved to a quarterly dividend policy in line with normal practice in the US. And I think this also is reflected in their announcement in a very significant share repurchase programme. But as Jean says, I'm probably making too detailed an observation, and I'll let Technip comment on their own behalf.

Christopher Møllerløkken
No, I was more asking on your behalf: would this be something that Subsea 7 would consider?

Ricardo Rosa
Our policy is that we do not have a regular dividend. We are very clear, and we repeat it on a number of occasions, that the inherent volatility of our business does not lend it to establishing a regular dividend, be it quarterly or annual. We have, however, been shareholder friendly in our view; we've distributed since 2011 around $1.2 billion of cash in the form of dividends and share buybacks, and only this month have we just paid the dividend of $190 million, or NOK 5.00 per share, that we announced in March.

Christopher Møllerløkken
And turning to another part: it is said that TechnipFMC is offering extended guarantees to their customers when bidding. Does anything prevent you and OneSubsea to offer similar guarantees through your co-operation agreement?

John Evans
Our co-operation agreement with OneSubsea allows us to put commercial offers on the table to suit what clients are looking for. As we've said many times on these calls, the model that we and OneSubsea have tried to do is to tailor offerings to suit what particular clients want, rather than have a one-size-fits-all. And as you can see, our award on both Dalmatian and Mad Dog 2 shows that the combination that we put on the table seems to work in certain cases.

Jean Cahuzac
And I would just add that what we are seeing is what is being offered both by us and OneSubsea. We fulfil everything that the clients are asking for, and that without increasing the risk profile on our side, so we're quite happy in the way it's going.

Christopher Møllerløkken
And finally: listening to your Italian competitor, they didn't seem to be that optimistic regarding one of the projects offshore India. You seem to be a bit more optimistic when it comes to contract awards there. Any comments?

Jean Cahuzac
We are not commenting on contracts on an individual basis, on contract-by-contract, and our approach hasn't changed. I mean, a contract is never won before it's signed.

Christopher Møllerløkken
Thank you.

Operator
Thank you. Our next question comes from Anne Gjøen from Handelsbanken. Please go ahead, your line is now open.

Anne Gjøen
Yeah, thank you. First of all, congratulations with a very strong Q1. As you now have full ownership of Seaway Heaving Lifting, is it possible to indicate some projects where the tendering activity is ongoing or coming in offshore wind?

And in renewables and heavy lifting, is it there possible to indicate something about margins return for you on the wind project, or something relative to the offshore projects? Thank you.

John Evans
Okay, well I'll answer your question in the sense of looking at how Jean's commentary mentioned. Seaway Heavy Lifting has sort of three different exposures to the renewable business. The first is what we would call transportation and installing the foundations, which can either be mono-piles or foundation units, and there is some bidding for some of that work in Europe at the moment. Secondly, the EPIC contracts – and as we've always said, they're much rarer in terms of size and scale. We don't expect a Beatrice every year coming through, but there are opportunities in the market longer term. They are not currently bidding a number of those at the moment, but we're preparing to get ready. And thirdly then, there has been a very good niche established with Seaway Heavy Lifting installing the sub-stations. Each of these wind parks has a sub-station, with a jacket and quite a heavy topside with the sub-stations. So, at present we're bidding sub-stations, and at present we're actually installing three sub-stations this month in the North Sea.

In terms of margins, I don't think we'll comment on the margins overall, but it's a business that we are comfortable with, with the exposures, and we're comfortable with our ability to execute the work in each of those three different market segments.

Ricardo Rosa
I would only add, Anna, to John's comment that with the re-structuring of our segment reporting and the creation of a standalone renewables and heavy lifting business unit, I think you will have more visibility on margins associated with our activities in renewables and heavy lifting. And we believe that will provide some additional clarity that today you may not have.

Anne Gjøen
Thank you.

Operator
Thank you. Our next question comes from Haakon Amundsen from ABG. Please go ahead, your line is now open.

Haakon Amundsen
Two questions from me. First of all, just to understand your margin guidance even better: is the margin upgrade simply a reflection of a couple of projects where the commercial outcome in 2017 is better than you expected, or are there any sustainable effects that can spill over to 2018, for example? That's my first question.

And the second question is if you can put some colour on any potential IMR frame agreements which need renewal this year, and how the profitability is on those kinds of projects relative to the SURF market, please?

Jean Cahuzac
Regarding the question on the margin, I will take this question and then I will let John answer on the IMR point. First, I mean, the margins that you've seen in Q1, which we did before, are not sustainable; in the short, term we are going to see pressure on margins. We have been seeing pressure on margins in the recent past. However, we are able to optimise our margins through all the points that we mentioned before: the cost savings, the excellent execution, etc. So, regarding our views for the margin of the year, also it takes a lot of elements in consideration, including different timing of projects and also frame agreements on projects, etc. So, it's a complex equation that we are trying to manage the best we can.

Regarding the IMR angle for Mexico?

John Evans
Yeah, in the US Gulf of Mexico there's an opportunity for a renewal there in the bidding that will take place in the next few months, for BP's work for the next few years where we're the incumbent at the moment. In the North Sea, as you know, we have Statoil agreements, BP agreements and Shell agreements, which allow drawdowns against those IMR contracts. And we have a framework arrangement with multi-clients for about six clients called DSVi, and we're seeing a reasonable drawdown on the DSVi framework at the moment, which allows us to put the *Kestrel* to work; our new diving vessel is going to work to do diving work this season in the North Sea. We also will be going over to Canada to complete the construction work on Hebron, and we will take some drawdown of an IMR framework there as well to do some inspection, repair and maintenance in Canada this summer as well, with one of our vessels.

Jean Cahuzac
I would say as far as the trend is concerned, the priority of our clients is to maintain or develop production on existing installations as one of their key priorities. Very little work has been done in terms of IMR over the last two years, so we see the trend going in the right direction nowadays.

Haakon Amundsen
Alright, thanks, that's it for me.

Operator
Thank you. Our next question comes from Amy Wong from UBS. Please go ahead, your line is now open.

Amy Wong
Hi, good afternoon. I have two pretty different questions. The first one relates to your bidding strategy. I mean, in the past you've talked about certain projects that are currently in your backlog right now; you were bidding at 'bare bone' margins, but obviously in this downturn you've been able to find ways to cut costs out, and actually they've now become actually quite profitable projects. So, can you talk about your bidding strategy today in terms of what kind of margins you're bidding at, and then how you think about the out turn, where then you try to backfill for costs savings going forward? That's my first question, please.

Jean Cahuzac
Regarding the bidding strategy, our bidding strategy hasn't changed. First priority: evaluate the risk, don't take more risk than we should; that hasn't changed, and keeping discipline is the priority. At the same time, regarding the bidding strategy, we are talking about the gradual recovery of the market. That means that what we are still seeing today is pressure on margins with a lot of competition, in particular for the smaller jobs around the world. So, I think in terms of improvement of margin, it will be a gradual trend, and there will be no step change in the market, which is today quite competitive.

Regarding the cost savings, we have achieved a lot of cost savings over the last two years. We are now talking about more continuous improvement in the way of working, so the magnitude of the cost saving is obviously very different.

Anna Wong
Right. Okay.

Jean Cahuzac
And we intend to maintain this new way of working in the future, which will deliver superior margins when the market picks up.

Anna Wong
Right, right. Okay. Now, my second question relates more to the cost savings you guys are achieving on a project level in terms of – you mentioned in your opening remarks making deepwater offshore projects much more competitive relative to other resources. So, now that we're two and a half, three years into this downturn, can you identify – help us understand where you are still finding sources of cost reductions at a project level, and how much incrementally more costs need to come down, or how much more do you think they can come down by, to make offshore just generally a much more competitive resource?

Jean Cahuzac
Yeah. John, do you want to take this question?

John Evans
Yes, so Amy, I guess it's a fundamental truism, but it's what we end up building and what we end up installing that really defines the costs that our clients see. So, there's been a lot of work on specification: how it needs to be built, what it is, how it's laid out, what you are trying to achieve as a client. Those types of discussions that we've spoken about for the last 18 months, two years have been very productive for the industry overall, because it's starting to look at it as a supplier-led solution rather than a standard specification-led solution. So, when we look at costs, and we've seen projects today that can be sanctioned in this world by our clients, a lot of that has been around what exactly is to be achieved and how it's to be achieved.

Inside our own organisation, we've looked at our own costs and how we structure, and how we then liquidate the projects and how we execute those, and we've done a lot of good work with a number of clients about the atmosphere and the culture and environment we allow projects to be delivered as well. And some of the structures we had in the past weren't always conducive to good decision-making at the time, and suchlike. Delivering projects depends on good decision-making being made at the right time, and then finally good delivery at the very end. We're starting to see a number of those things come together on a number of our projects. There isn't one magic button you can press to say, 'That's the thing that's contributed to it,' but it's multi-faceted. But we are reasonably pleased at the moment. We have a cost base for ourselves that can work in the industry today.

Amy Wong
Alright, okay, thank you very much.

Operator
Thank you. Our next question comes from Morten Nystrom from Nordea. Please go ahead, your line is now open.

Morten Nystrom
Yes, thank you. A lot of my questions have been answered, but first one: could you talk about the current tender list, and try to compare this to one year ago, two years ago and give us the highlights of the main changes?

And secondly, do you have the impression that you are, I would say, more competitive on costs than your peers? Meaning that you have been able to – or been more successful in taking out costs and then, as such, been more able to be more competitive on new awards? Thank you.

Jean Cahuzac
Taking your second question, we are very pleased with what we have achieved internally regarding our cost way of working. Even more pleased because I strongly believe that we have made some step changes which are going to be there for the long term, and improve not only our competitiveness but also how we deliver the projects. I cannot comment on what competition has been doing; the only thing I can

say is that I am also very pleased with our market share and what we got on the jobs which were available.

Regarding the projects, I would say things haven't changed since we talked last quarter. We are talking about a gradual recovery and, as we said I think in our comments, we see a number of projects not been awarded before late 2017 or the beginning of 2018. That's for the SURF projects; regarding the IMR, we see more visibility there.

I think we are going to take one more question.

Operator

Thank you. The last question comes from Guillaume Delaby from Société Générale. Please go ahead, your line is now open.

Guillaume Delaby

Yes, good morning, thank you for taking my question. Clearly, you and Schlumberger become more and more vocal about the deepening of the alliance, and my question will be: what is the main operating difference, and what is the main economic difference, between bidding on a project as a pure alliance and bidding on a project as a company?

Jean Cahuzac

Well, I can comment on the deepening of the alliance, and John can give you a flavour of the difference. It takes time to actually know each other. It takes time to work closely together, and we've seen no problems. We've seen a continuous improvement, and I think – I would say every day, every week we are working closer and becoming more efficient, and understanding each other. It's two different businesses to be in the manufacturing and to be a project delivery company, and I think we have the trust and the confidence on both sides which allows us to move forward. So, I think it's working very, very well. John?

John Evans

Coming back to my other answer to the other question, I think ultimately, it's about what the clients want, and that's what we're trying to do here, is to work on understanding what the client really needs in the particular fields that we're looking at. How you ultimately contract and structure that and handle the interfaces and suchlike, there are ways of doing that as an alliance, as we've shown successfully on both Dalmatian and Mad Dog 2, as have other people in this industry by being a single company. So, we don't believe that our clients are missing out on anything by the way we've structured our business; it's the quality of the discussion that we have with our clients, and it's the quality of the input that OneSubsea and Subsea 7 can put on the table, that allows us to make progress on certain projects here.

So, we don't see that as in any way, shape or form a restriction to the ability to succeed. But, as I said earlier, we offer it to clients only when they are interested in it, and only when it makes sense for them and the way they wish to contract, and we take every single project on a case-by-case basis and try to tailor a solution accordingly.

Guillaume Delaby
Thank you.

Jean Cahuzac
Well, I would like to thank all of you for participating to this earnings call, and looking forward to our next conversation at the next earnings call. Thank you.