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Speakers:

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Ricardo Rosa, Chief Financial Officer
John Evans, Chief Operating Officer
Isabel Green, Investor Relations Director

Isabel Green
Welcome, everyone, to our Second Quarter 2017 Results Conference Call. 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. Turning to slide 2, I must remind you that this call may include forward-looking statements that reflect our current views and are subject to risks, uncertainties and assumptions. Similar wording is also included in our press release. I'll now turn over the call to Jean.

Jean Cahuzac
Thank you, Isabel. Good afternoon, and welcome to our Second Quarter Results Conference Call. I will start with the highlights of our second quarter performance and an overview of our recent operation activity; Ricardo will review our financial results in more detail; I will conclude with an update on the progress of our strategic initiatives and our views on the market outlook. We will then answer your questions.

Starting on slide 4, I'm very pleased with our strong quarterly operational and financial performance. Revenue was $1 billion and we generated adjusted EBITDA of $340 million. The performance continued the trend from prior quarters with good project execution and cost discipline. Our high-percentage margin is partly a reflection of the mix of activity at this point of the cycle.

Our strong balance sheet has enabled us to capture opportunities and invest in growing and strengthening our business. We acquired SHL in the first quarter and ECS in the second. At quarter-end, we had $825 million net cash. We have reduced our revolving credit facility to $656 million; this facility remains undrawn. Our liquidity position therefore remains strong.

Our new-build vessels, *Seven Arctic* and *Seven Kestrel*, commenced activities in April as planned. Active vessel utilisation was 77%, and total vessel utilisation 68%. We are seeing increased tendering activity, although the short-term market remains challenging. We continue to believe that the increase in awards to market will be gradual. New awards and escalations totalled $141 million during the quarter. This, added to the $856 million from ECS, took our order backlog to $5.7 billion, unchanged from the position at the end of March.

Turning to slide 5, which shows a selection of our activity in the quarter, our SURF and Conventional projects have progressed very well. We have substantially completed the West Nile Delta Phase One project, Offshore Egypt, in the Taurus and Libra fields. The West Nile Delta Phase Two GFR project has commenced fabrication. And on this slide, you can see Seven Antares mobilising for the pipelaying operations.

In the North Sea, on the Maria project, *Seven Oceans* completed pipelay operations and *Seven Arctic*, shown here, restored spools and protective structure. Also in the North Sea, the Western Isles, Catcher and Culzean projects progressed well. In the Gulf of Mexico on the US side, the Coulomb project was completed. The Stampede project progressed with pipelay and celebrated a safety milestone of 1,000 days without any recordable injuries or high-potential incidents. Offshore Brazil, our fleet of PSLVs continues to operate efficiently for Petrobras. And on 1st July, Seven Waves resumed work following repair of its lay tower.

Renewables and Heavy Lifting activity increased compared to the prior year, with significant progress on the Beatrice Wind farm project and several other substation installations. The Beatrice picture shows five of the 84 jackets in one of the fabrication yards. To give you an idea of the scale of this construction, each of them weighs approximately 1,200 tonnes and stands 80 metres tall.

i-Tech Services has progressed with EPRS project of INPEX and Chevron. The US chartered vessel, *Harvey Intervention*, has commenced work for the new IMR contract in the US Gulf of Mexico for Shell. The spot market has been subdued again this summer, as our clients look to minimise discretionary work and conserve cash.

Moving on to slide 6, our order backlog at the end of June was $5.7 billion, in line with the backlog position at the end of the first quarter. This included $1.4 billion of work related to the long-term contracts for PSLVs offshore Brazil. We have $2 billion of work due to be executed in the second half of 2017, supporting our guidance for an increase in revenue this year compared to 2016. Our order backlog to be executed in 2018 was $2.4 billion at the end of June, covering approximately two-thirds of next year's consensus revenue expectation.

There were no announced award in the quarter. Unannounced order intake totalled $141 million, with several smaller projects awarded as well as escalations on existing contracts. The acquisition of ECS added $856 million to our backlog, with five projects, three of which are located offshore Saudi Arabia. After the quarter ended, contract extensions were signed in Brazil for three of our PSLVs, adding a further $250 million to our order backlog for 2019 onwards.

I will now hand over to Ricardo to discuss our financial performance.

Ricardo Rosa
Thank you, Jean, and good afternoon, everyone. Let's first look at the income statement highlights on slide 7. Second quarter revenue of $1 billion was up 6% from the prior-year period. This reflected increased revenue from the Renewables and Heavy Lifting business unit, which included fully consolidated results for SHL, following its acquisition in March. Revenue from SURF and i-Tech was lower year-on-year as clients continued to minimise non-essential expenditure. Adjusted EBITDA was $340 million. In the comparative prior-year period, the adjusted EBITDA was $280 million, but this included a $53 million restructuring charge. Excluding the one-off charge taken in 2016, adjusted EBITDA was 2% higher year-on-year. Adjusted EBITDA margin of 33% reflected the contribution from projects nearing completion, good executions and continued discipline in our costs. Diluted earnings per share were $0.43, 8% higher than the prior-year period.

Now, let's turn to slide 8 to look at the income statement in more detail. Net operating income was $235 million. This included an $11 million loss from the share of net income from associates and joint ventures, compared to net income of $27 million in the prior-year period. The loss reflected impairment recognised on the pipelay vessel *Normand Oceanic*, which is owned by an equity-accounted joint venture. The joint venture net income reported last year was mostly from SHL, which was equity accounted at the time. A $27 million loss was reported within other gains and losses, of which $23 million related to foreign exchange losses due to functional currency movements. In the prior-year period, there was a gain of $23 million. Taxation of $60 million was equivalent to an effective tax rate of 29%. Net income was $146 million, 7% higher year-on-year.

Slide 9 shows our revenue and net operating income by business unit. SURF and Conventional revenue of $614 million was down 29% from the prior year's quarter due to lower activity levels, reflecting where the industry is in the cycle. Net operating income was $163 million, down 14% year-on-year. i-Tech Services revenue was $83 million, 11% lower compared to the prior year. Net operating income of $11 million was 15% lower. Compared to the first quarter, inspection, maintenance and repair activity increased as seasonal work resumed in the North Sea. However, activity was lower than the prior year as client's restricted IMR work worldwide to the minimum required amount. Renewables and Heavy Lifting revenue was $325 million, mostly related to the Beatrice project which began offshore operations in April. Work has progressed well, with approximately half of the piles installed and jacket installation due to commence in August. Net operating income was $53 million. Both revenue and net operating income benefited from the full consolidation of SHL, following its acquisition in March this year.

Now I'll turn to slide 10. On 29th June, we acquired certain businesses of ECS from Chapter 11. The total consideration was $55 million. In the second quarter, we paid out $38 million but received $8 million of this back in cash held by ECS, resulting in a net disbursement of $30 million. $17 million remains to the paid out in the third quarter. We provided $25 million debtor-in-possession financing to ECS during the Chapter 11 process; as part of the acquisition, this was settled in full. The ECS businesses are consolidated from the date of acquisition within our SURF and Conventional business unit. Provisional purchase price accounting, or PPA, has resulted in the provisional recognition of net assets of $48 million, mostly comprising working capital balances related to projects. The $8 million excess of consideration of the provisional fair value of assets acquired has been allocated to other intangibles, pending completion of the PPA exercise. No vessels were acquired and no debt was assumed. The purchase price accounting review will be completed in the second half of the year. As Jean mentioned earlier, $856 million of ECS's order backlog was added as a result of the acquisition. Approximately $300 million of this is to be executed in the remainder of 2017 and approximately $450 million in 2018. Finally, in an associated transaction, also on 29th June, we acquired from ECS the Ingleside Spoolbase in Texas, USA. The consideration for this was $16 million, and this is accounted for as an asset purchase and has been classified in property, plant and equipment. The addition of this Spoolbase in Ingleside gives us a secure and permanent presence in the Gulf of Mexico.

Moving on now to slide 11, which illustrates our cash movements in the quarter. Cash and equivalents was $1.5 billion at the end of June, a reduction of $398 million on the position at the end of March. We decreased our borrowings by paying down $133 million of debt, previously held by SHL, and spending $55 million in the quarter on convertible bond repurchases. Our dividend of NOK5 per share was paid in April, equivalent to $191 million. We reported working-capital-related outflows of $270 million in the quarter with our net operating liabilities decreasing; a trend that we have been expecting. The large decrease this quarter was mainly attributable to progress on projects in the North Sea and Egypt. It was also impacted by progress on the Beatrice project, which had relatively large upfront payments for procurement in prior periods that we paid out to our suppliers in the second quarter. Although there will be some volatility in our net operating liability position in the second half of 2017, driven mainly by the execution of the Beatrice project, we do not expect such significant shifts as we have seen in the first half. Our financial and liquidity positions remain strong. At the end of June, we had borrowings of $650 million; we reduced our revolving credit facility from $750 million to $656 million, cancelling the $94 million that was to mature in 2019 and retaining the remainder, which will mature in 2021. This facility remained unutilised.

Slide 12 shows our progress on capital allocation. Firstly, we are investing to grow and strengthen our business. Our targeted approaches increased our presence in the Renewables market and accelerated our growth strategy for the Middle East. We have also invested in our modern and flexible fleet, and maintained a leading position in development of new technology. Secondly, we are committed to maintaining an investment-grade credit profile. We have regularly paid down debt and currently have a robust net cash position. Thirdly, we are returning surplus cash to shareholders by means of a special dividend and share repurchases. Since 2011, we have returned over $1.2 billion, including a special dividend equivalent to almost $200 million paid in the second quarter of 2017. Today, we have announced the extension of our $200 million share buyback programme to July 2019. We have already repurchased $57 million under this programme in prior years, but $143 million remains available for repurchases in the coming two years.

Turning to slide 13, I will conclude with our updated guidance. We have updated our guidance to include the addition of ECS and to reflect our year-to-date performance. We now expect 2017 revenue to be higher than in 2016. We have not changed our guidance for adjusted EBITDA percentage margin, which is still expected to be lower than the record 32% reported last year. Our administrative expenses are expected to be between $220–240 million, raised from $210–230 million previously guided, and it reflects the consolidation of both the SHL and the ECS businesses. Our net finance cost is now expected to be between $5 million and $10 million, as we have reduced our debt. Our depreciation and amortisation expense is still forecast to be between $410 million and $430 million, and our effective tax rate is still anticipated to be between 28–33% for the full year. Finally, capital expenditure is expected to be between $160–180 million. This CAPEX relates to the maintenance of our existing fleet and onshore assets, including the Ingleside Spoolbase. It does not include any forecast capital investment in potential growth opportunities.

With that, I will now pass you back to Jean.

Jean Cahuzac
Thank you, Ricardo. Now, let's turn to slide 14, which shows some of our key achievements since the beginning of 2015. We have delivered well through the downturn. We have achieved this by identifying the challenges of a lower oil price and taking strategic decisions to strengthen our position. By acting early and focusing our attention on our differentiators, we were able to reduce capacity quickly. This reduced our operating costs, helping us to win more work and protect our earnings. We also improved our service offering. We maintained our technology and new-build vessel investment programmes. This kept us at the forefront of new cost-effective solutions based on new technology, such as Trace-Heated Flowlines for extended tie-backs.

We formed alliances with leading industry providers to extend our capability to include early engineering and integrated solutions. Our alliances with KBR/Granherne and with OneSubsea have been instrumental in certain project awards. Client engagement is now well established for these alliances and they have become an integral part of our service offering. Similarly, as our successful relationship with Aker BP has shown, a number of independent clients have engaged with us using a partnership approach. Our latest strategic move has been to diversify our business by expanding our presence in certain markets, which will help Subsea 7 to be more resilient in future cycles and enhance our revenue-generating potential.

In the first quarter, we acquired the remaining 50% of SHL, doubling our exposure to the fast-growing offshore wind farm market. In the second quarter, we acquired certain businesses of ECS, accelerating our plans to develop our presence in the Middle East. I shall talk more about ECS in a moment.

Looking forward, investing in differentiated capability continues to be a strategic priority. We need to ensure we have the right capability to win and execute work efficiently and effectively. This could include investing in new technology and developing our fleet capability to fully service the changing needs of the market.

Slide 15 summarises our acquisition of ECS from Chapter 11. ECS was a competitor with a strong conventional business in Saudi Arabia and capability for large projects in certain geographies. It was placed under Chapter 11 in February 2017. On 29th June, ECS's proposed plan of reorganisation was approved by the US Bankruptcy Court. Subsea 7 acquired certain ECS businesses and, as a result, gained a long-term agreement, in consortium with Larsen & Toubro, for work in Saudi Arabia. We also consolidated a substantial backlog, mostly for execution in 2017 and 2018. As a result, approximately 850 people have joined our organisation. For these existing operational commitments, we have chartered two ECS vessels: the Lewek Constellation on the short-term charter, and Lewek Champion on the mid-tier charter. We didn't acquire any of the vessels owned by ECS. In our view, the technical specifications of *Lewek Constellation* would not have fulfilled our need for new technology implementation, such as larger diameter Pipe-in-Pipe or electrically heated pipes.

Moving on to slide 16 and our plan for the Middle East. As clients in the Middle East region increase capital expenditure on conventional projects, we hope to increase our presence in the region. We initiated an organic growth strategy to penetrate the Saudi Arabia market through a long-term agreement with Saudi Aramco, and we were making steady progress to achieve this goal. The opportunity presented by the ECS acquisition accelerated our strategy and replaced our earlier plan. Our LTA is held in consortium with Larsen & Toubro. In addition to the engineering and project management we both provide, Larsen & Toubro supply the fabrication that is necessary for the project, and we provide installation capability. We have three projects today that we are executing in Saudi Arabia, with a combined backlog of approximately $750 million, most of which will be executed in 2017 and 2018. Tendering under the LTA ceased for ECS while it was in Chapter 11, but we have already been invited by Saudi Aramco to tender on new awards now that the acquisition has been completed. We aim to grow our presence in Saudi Arabia and win a fair share of the available work under the LTA, which continues through 2021 before needing to be renewed.

Slide 17 illustrates the market outlook. So far this year, we have seen an increase in offshore projects being sanctioned. We have also experienced an increase in tendering activity, in part due to earlier engagement as our clients adopt a way of working that supports lower-cost solutions. Our clients have lowered the breakeven for their portfolio of projects, and the recent oil price uncertainty does not appear to have materially impacted their development plan. We continue to see trends towards long tie-back and phased field developments. For offshore to be competitive at $50 or less, our sector needs to remain focused and disciplined. For us, this means early engagement, deepening our alliance offerings as well as pushing the benefits of our latest technology and better ways of working. We also need to anticipate our clients' requirement of the future, so that we can develop new technology and invest in our capability to stay ahead of the competition.

Finally, to conclude on slide 18, we give our review for the outlook of our business units. In SURF and Conventional, we continue to see and still expect a gradual market recovery, with an increase in awards by first half of 2018. This is supported by the conversations we have with our clients. We have listed on this slide some of the larger project tenders that are active today and could be awarded late this year in

2017 or in 2018. We have seen an increase in tenders for work in the Norwegian sector of the North Sea. Active tenders include Wintershall's Skarfjell project, Statoil's Snorre project and Aker BP's Snadd project. Active tenders in Africa includes the Tortue project, a relatively large gas development offshore Mauritania and Senegal for BP; the Mamba project for Eni, offshore Mozambique; and Total's Zinia project, offshore Angola. In Brazil, the Statoil's Peregrino project has been santioned and the award to market is expected later this year. KG-D6, offshore India, has been sanctioned by Reliance. Tenders have been submitted and the market is waiting for news of award. We tendered this last project in consortium with TechnipFMC, combining our capacity in this region and sharing the risk. Here again, this contract would be awarded later this year. Tenders have been submitted for the Gorgon Phase 2 project, offshore Australia. This project could be awarded before the end of next year.

Our i-Tech Services business unit is focused on IMR tenders in the North Sea and the US Gulf of Mexico, where we are seeing some signs of activities starting to increase. The spot market, however, is still weak and expected to remain so for the rest of the year. The outlook for Renewables and Heavy Lifting is steady. Oil and gas heavy lifting is predominately located in the Middle East and Egypt. Decommissioning is focused in the North Sea. There are a number of wind farm tenders in progress. Most of the renewables activity is in European waters, but we also see opportunities emerging in Taiwan.

Q&A - Operator

The first question comes from the line of Phillip Lindsay from Credit Suisse. Please go ahead, your line is now open.

Phillip Lindsay
Good afternoon. Another decent quarter. As you indicated, Jean, I think you said you've got two-thirds of market expectations in the bag for 2018; clearly, not a bad place to be at the midpoint of 2017. And I totally understand the outlook in terms of gradual pick-up in SURF awards into the first half of next year. My question is, for the bulk of work that you're chasing, when do you envisage offshore campaign taking place? Should we be thinking beyond 2018 or can you sort of ramp up faster on some of the smaller awards?

Jean Cahuzac
Well, I would say, it all depends on the type of project and the geographical area. When you talk about some relatively seasonal projects, small-sized projects, Wintershall project in the North Sea, we could be seeing activity in the late 2018. When you talk about the larger projects, we are talking about operation in 2019. But I would not underestimate, with the level of tendering that we have today, also additional scope of work on existing contracts.

Phillip Lindsay
That's helpful, thank you. And then, the second question on Renewables. Clearly, percentage of completion accelerated on Beatrice during Q2 and the SHL vessels were well utilised. Presumably, that continues in Q3. But for Q4, your current rate of progress, how should we think about utilisation of those vessels?

And then just as a follow-up to that broader Renewables question; perhaps just an update on business development prospects and any confidence you can give us on timing of Renewables being sanctioned? Thank you.

Jean Cahuzac
I am going to let John give you some information on Beatrice, and how we see the division of project. But before he does it, I think Beatrice is a very good example of how we've been able to adapt our way of working from the oil and gas to Beatrice. I mean, the execution of Beatrice is very, very good, and it's fully in line with what we're achieving in oil and gas. John, you want to answer the question?

John Evans
Yes. So, Phil, to give you a bit more detail here, we are still installing the piles – so, Beatrice's 84 jackets, which have four piles each. So, the *Stanislav Yudin* has been installing those in quarter two. We'll continue to do that in quarter three and into quarter four. The *Oleg Strashnov* just completed work on Zohr. We've done some lifting in Egypt for Zohr project last month when she comes back into the North Sea. And we

do, as Ricardo said, start the jacket installation work in August with the *Oleg Strashnov*, and she will work for the best part of this year doing jacket installation in Q3 and Q4. Jean and I recently visited one of the fabrication yards in the UK that's building these jackets, and we are reasonably pleased with the progress in all the jacket fabrication. So, it's fitting into place as we expected.

Looking more generally into the Renewables space, there are some opportunities for T&I projects in Europe, which we're currently bidding. But Taiwan is also showing signs of one or two potential shallow-water projects, which are very similar to the ones we see in Europe, where Taiwan is looking at the potential of doing offshore wind-farms there. So, at the moment, we are positioning SHL for opportunities in Taiwan, which we expect into the market quite soon.

Jean Cahuzac
We see some opportunities for lifting operations in Middle East. Which has been an area where SHL has traditionally been successful. But with the stronger presence that we have in Middle East, I mean, I think we are positioning ourselves as a company to take more opportunities also for SHL there.

Operator
The next question comes from the line of Michael Alsford from Citi. Please go ahead, your line is now open.

Michael Alsford
Thanks for taking my questions. So, I've just got a couple as well, please. Just firstly, on sort of capital allocation and capital structure, I just – obviously, net cash is just over $800 million at the half-year; I just wanted to see whether you felt that that was the appropriate base level of net cash to think about, or whether you feel that the business has got excess cash that can be perhaps distributed quickly back to shareholders through a further special or, as you mentioned, the availability of the buyback? That was my first question.

And then, just secondly, you mentioned working capital, and it was a big outflow in the first half. You are saying that it's going to be as big in the second half, but I was just wondering whether you can give a little bit more, or help quantify that a little bit more? Because your $400 million of outflows in the first half was pretty material, so how should we think about that into the second half? Thank you.

Ricardo Rosa
As far as the allocation of capital is concerned and the associated net cash, I mean, we don't see any change in the policy that I articulated in my prepared remarks. We feel that with this prolonged downturn and given the challenges and uncertainties that still remain ahead; we think it's important to maintain a very strong balance sheet and clear and robust liquidity position. And I talked about our investment-grade profile.

We also want to retain liquidity to execute on our first priority, which is to continue reinvesting in growing the business. You know, we have the flexibility with our liquidity position to seize opportunities as they arise. We have announced and paid a dividend this year, and I think our track record in returning cash to shareholders has been good, certainly since the merger in 2011. And it's something that remains constantly under review. So, we don't see a need at this point to change the approach that we have articulated in various contacts with investors.

As far as our net working capital is concerned: yes, you're absolutely right. We've seen, effectively, a reversal of our net operating liability position both in the first quarter and the second quarter, which has meant that, effectively, operating cash generation in both quarters has been relatively low. If you remember in Q1, it was about $65 million; this quarter it's about $30 million.

But first of all, it's still positive. And I think it's been driven – or I know it's been driven by two main factors. The first is the completion of various major projects. As you know, most projects maintain a net liability position during execution. But in the close-out phase, what you see is an unwinding of that net liability position as the project completes. In the last six months, we've seen a number of projects close out both in the North Sea and Egypt. And obviously, this has had an impact on our NOL, our net operating liability position.

The second driver has been the acquisition of SHL. When we consolidated SHL in March, 10th March, it had a significant net liability position that related to payments that were to be performed. In Q2, as I think Phillip highlighted, we progressed significantly on the execution of Beatrice with the fabrication of piles and jackets, and this ate significant into our net liability position. So really, those are the two main drivers that we have.

Going forward, we are expecting the net operating liability position to stabilise, although there will be a possibility of some volatility in the short term, in part due to the impact of Beatrice and in part to the integration of ECS activity. Nevertheless, our liquidity position remains solid, and the reversal that we've seen has not been a cause for alarm on our side.

Operator
The next question comes from the line of Amy Wong from UBS. Please go ahead, your line is now open.

Amy Wong
Two questions from me, please. The first one relates to your strategy of acquiring ECS and getting access to the Middle East. Could you perhaps talk about – and as a result of that, you highlighted that you didn't really acquire any vessels at all. Could you comment on your own asset base, and perhaps how appropriate it is in terms of matching the needs of what is required in Saudi Arabia?

And then my second question relates to your comment on the tendering pipeline: perhaps you'd be happy to give us the size of that tendering pipeline, and how that's changed since the beginning of the year? Thanks.

Jean Cahuzac
Regarding the acquisition of ECS: I mean, the first thing, as I mentioned before, it's something that is in line with the strategies that we defined some time ago. We identified the plus of increasing our presence in the Middle East as a low-cost operation with steady activity and, in fact, growing activity with the present price of oil. The acquisition of ECS gave us the opportunity to accelerate this move and strengthen our position.

Regarding the assets, you're quite right. And as we mentioned, we didn't acquire assets which belong to ECS. And we are today in a situation where we believe that we'll be able to develop and grow activity in the area using our own assets, *Seven Antares* and *Seven Inagha*, which are very suitable for this part of the world, as well as chartered vessels to execute the project.

Your second question, I think, was on the tendering and how we see the tendering pipeline. I think it's clear today that we are definitely seeing an increase on tendering, which is in line with our view of this gradual improvement of the market. In fact, our organisation is very active on tendering all around the world from Brazil to North Sea, and other parts of the world.

We are seeing a number of interests from the clients to additional work, in particular in tiebacks, and maintaining production or developing production on existing infrastructure. That has not slowed down. And when we talk to clients about the recent oil price evolution – I mean, the last couple of weeks and the oil price went down – they were quite clear that it didn't change their view on what they needed to do. And in fact, a number of operators are telling us today that they will use this down-cycle period to develop more – to do more work because of the low cost of the market.

Amy Wong
Could I just follow-up on the second answer there? Just give us a little bit – quantify the splits of the activity increase? Like in terms of perhaps volume, whether its vessel days or kilometres of pipe laid, how has that evolved over the last six months?

Jean Cahuzac
Difficult to answer your question. I think the evolution, as we said before, Amy, is gradual. And I would say over the last six months, we have seen the normal trends of increased activity in the summer period in the North Sea, increased activity on smaller projects. In terms of the larger projects, as we mentioned before, we see an increase of activity on the – 2019 forward.

I would say on the large projects, when you look at which one we think will come to market first, they are a bit all around the world. I mean, it's Peregrino in Brazil. It's Libra Phase 1, which is likely to go ahead now early 2018, with sanction in the last quarter of 2017. It's Gorgon Phase 2 in Australia. It's Tortue in Mauritania. It's Mamba and Golfinho. And I could go on with the list – without ignoring Snorre in Norway, which is also a project which offers opportunities to companies like Subsea 7. So, tie-backs remain the core of the increased activity. And then, there are some larger projects which are coming to the market in 2018, but some of them that I mentioned will be late 2017 too. So, it's gradual improvement. Timing remains sometimes a bit uncertain, but I haven't changed my view on what we said over the last two quarters.

Operator
The next question comes from the line of David Farrell from Macquarie. Please go ahead, your line is now open.

David Farrell
Hi, there. I've got a question on the Renewables business, please. We've seen a fair bit of M&A in that space over the recent few months from the supplier side. I think the number three pile and installer has purchased the number two kind of turbine installer, Saipem yesterday talking about moving from being a marine contractor to a full EPCI contractor. Can you try and explain just kind of what the strategy is there for SHL and Subsea 7 over the next few years? Are we going to see some inorganic activity or are we going to see you deploying your balance sheet to build new vessels to compete with new players, or more competitive players?

Jean Cahuzac
Well, we are not talking about building new vessels at this stage in the Renewables. But as you can imagine, we are looking at how to grow this business. And we will look at any opportunity which will come to actually go in that direction, and that also includes change in the commercial model and in the vertical integration of the business. We are promoting in Renewables a similar approach that we have in oil and gas by getting involved with partners all over the whole chain of Renewables. So, I would say we'll take the same approach in Renewables that we're taking in oil and gas. Our balance sheet would allow us to take opportunities if they were to become available, and we are going to grow the business over time.

Operator
The next question comes from the line of Rob Pulleyn from Morgan Stanley. Please go ahead, your line is now open.

Robert Pulleyn
A few questions, if I may? The first one, if I may ask: I mean, does the purchase of backlog through the ECS deal – which, by the way, I see as a very smart piece of business – but does the purchase of backlog and the approach to diversification by getting exposure to the low-cost Middle East oil represent concerns over the core deepwater business and the activity therein? Obviously notwithstanding many of the questions which you've already been asked on that. Strategically, that seems obviously a step out of what you've historically focused upon.

Second and thirdly, some housekeeping questions. Could you give us a little bit of an idea of how much the 850 people added through ECS are going to impact the headcount costs versus what you had in 2016?

And also, on Beatrice, you talked about the progress. Are we right in thinking that the bulk of the procurement is probably over the 50% mark, and the rest of the procurement will be completed this year as regards to jackets? Thank you.

Jean Cahuzac
Thank you for the question. I will take the first question on ECS, and let John answer on the ECS personnel to funds that we have for integration and also the Beatrice question.

The acquisition of the ECS – I mean, first, I would say it is within our core business. We have always been in Conventional in Africa, and very successful in Conventional in Africa. So, in fact, the business we are moving in, it's a business that we know pretty well. And we know how to manage the risks and execute the project and progress with the projects.

We are seeing today potential in the Middle East at present price of oil, and how we see the price of oil evolution. But that, by no means, means that we are more concerned with anything than we were in the past on the deepwater. We still see opportunity in the deepwater. I would say growing this leg in the Middle East will allow us to have a more balanced portfolio and develop the business further. So, it's not a change of strategy, by any means; it's a more balanced portfolio.

John Evans
And Rob, the two questions on the people. For us, the bringing in the ECS skill set of Saudi Aramco experience is good for us. We have the right people working on those projects. So, we intend to keep the people deployed on ECS on the work that we've inherited, and they'll become part of the Subsea 7 teams working globally for us.

In terms of Beatrice, you're correct: the bulk of the procurement and the bulk of fabrication should be complete by the year-end 2017. And 2018 then, we'll be concentrating on the remaining installation of the jackets as well as the 180 kilometres' worth of infield array cables that we have to install. So, your judgment is about right, in terms of the split.

Jean Cahuzac
But I would also add one comment on the people from ECS. I mean, what we are seeing is very good people, they're executing projects very well. And taking into account the gradual recovery of the market that we see, I think we see a number of them being very welcome to join Subsea 7 for the new projects that we'll see in front of us in 2018 and 2019.

Robert Pulleyn
Just to clarify on the people: what I was interested in were the people cost within your split of operating costs. Last year it was about $1 billion; I was wondering how much the addition of 850 heads would increase that sort of people cost to budget for 2017, in terms of housekeeping? Thanks.

John Evans
It's roughly similar, I think, is a way of looking at it, Rob. You know, same skill set as we have today, so roughly similar.

Jean Cahuzac
We're picking up offshore and onshore people. And as John said, it should be a proportional increase.

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

Andrew Dobbing
A couple of questions. First, just follow-on on the people that you're bringing in from ECS: could you give us a rough split between onshore and offshore for those 850 people?

And secondly, this is Conventional work, and I think – at least, my understanding is Conventional work tends to be lower margin because there tends to be a lot more procurement on it. But in this case, your scope of work is really just transport and installation. So, on the back of that, should we think that this has better margins than might be typical for Conventional work that you've been doing in West Africa, for example?

Jean Cahuzac
I think when you look at the margin, you've got to relate to the Middle East margin, and you can see that with some of our competitors in the place. I think what is interesting also in this business is that we are expecting to grow the volume of activity. So, it's a plus also in the balanced portfolio that we have.

Regarding the headcount, we have around 450 people offshore and 850 people altogether, in total. So that's mostly in the Middle East, and in the other operations in Africa and Gulf of Mexico for those two contracts which will be completed in 2018.

Andrew Dobbing
So, just to reinforce, it is fair to assume there's not a lot of procurement on that backlog that you've inherited from the EMAS business?

John Evans
It's limited.

Andrew Dobbing
It's mostly transport and installation work, more than might be typical for conventional projects?

John Evans
There's a limited pipe coating to be done. So yes, pipe coating is in our contract to be done. And then, the rest is transport and install.

Jean Cahuzac
Yeah. As a reminder, we are in consortium with Larsen & Toubro, who are responsible for managing the fabrication of the jackets, etc. So, the procurement is on their side, to a large extent.

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

Anne Gjøen
In this prolonged down-cycle, do you still see interesting possibilities for making acquisitions as your balance sheet is still strong? Or is it, at current stage, more important for you to do even more positioning when it comes to partnership? Is that kind of most important at the current stage?

Jean Cahuzac
I think it's both. But I think that the priority is clearly to continue to identify opportunities to grow the business, and also to make sure that we continue to invest on technology and have the right resources and fleets to implement the technology in the future. So, I think we said it in previous calls: I see the downturn as, in fact, an opportunity for Subsea 7 to be a stronger company for when we operate this – the market itself. And the actions that we've taken since 2015 make me confident that we'll achieve that. Our balance sheet gives us opportunities. But again, we are prudent. We are cautious in our investment and we will do investment only when it makes sense. It's not growth for growth, it's profitable growth for the shareholders.

Operator
The next question comes from the line of Kévin Roger from Kepler Cheuvreux. Please go ahead, your line is now open.

Kévin Roger
One quick question please, on the depreciation and amortisation: is it possible for you to split it behind the SURF and the Renewable business, please?

And coming back on the Beatrice project, clearly this quarter, we have an EBIT margin rather stable in the SURF and Conventional and also in the i-Tech Services business line. But it's mostly the Renewable segment that is well above the Q1. As your activity in Q3 and Q4 on the Beatrice project would remain rather the same than in Q2, can we expect the same kind of earnings on the Beatrice project for the Q3 and Q4 compared to Q2, please?

Ricardo Rosa
With regards to D&A, we provide information on consolidated EBITDA for the Group and we also provide net operating income by business unit. And it's at the year-end that we'll provide some more detail on depreciation by business unit. So, we do provide that information, but not on an interim basis.

Ricardo Rosa
This being said, I can give you some indicative guidance that the significant majority of our D&A still relates to SURF. And on that, I'll hand over the commentary on Renewables to John.

John Evans
In Q1, the Heavy lifting vessels were not operational. They were waiting for the summer season to open up, hence the reason the Renewables and Heavy Lifing margin in Q1 was what it was. And that was expected and that was planned. We expect the asset base to grow to work again in Q2 and Q3, with partial operations in Q4. So, we would expect to see Q3 being roughly similar to where we're at, at the moment.

The thing to remember is that the profile of relationship between procurement, fabrication and offshore installation that moves around, and that's probably a bit different, phased by quarter. So, it's not an easy one to interpolate a straight line from one quarter to the next. But coming back to your question, it won't be a repeat of quarter one.

Ricardo Rosa
And one last comment on that, Kévin. As I'm sure you are aware, in Q1 the results of SHL were not consolidated, and we picked up 50% of the results of SHL on an equity-accounted basis for January and February. It's from March onwards that we are fully consolidating the activity of SHL and Renewables.

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

Frederik Lunde
I think it's the 12th consecutive major earnings beat that you report in the downturn, which is quite impressive.
Just curious; on slide 21, you highlight the progression on the projects, and you currently have six projects at roughly 90% completion. Could you give some colour on how that's going to impact Q3 and possibly Q4 as well?

John Evans
So, these are primarily the first five out of the six projects there are primarily North Sea projects, which are coming to a close as we get different fields online. So, for example, Clair Ridge is one of BP's main producers which will come online in the next six months. Followed by Catcher for Premier, Western Isles for Dana and Aasta Hansteen. So, we expect those projects to be at a level of reasonable completion as we get to the end of the year.

We've then got our traditional interfaces between the topside contractors or the FPSO contractors in the final hook-up and commissioning activities with our clients, which tends to be driven by a different timescale to the one that we normally control. So, at those points, our assets are called in by the client to suit their final commissioning needs, Frederik. So, you're right, the bulk of them will be complete at that point. How we complete them and when we finally complete them will be driven other windows.

Frederik Lunde
So, given what you just said, I guess, there's a quite good likelihood that you could end up with fairly strong margins also in the second half of the year, depending on operational success. Is that fair?

John Evans
It's fair to say, yeah. It will be dependent on how those completed windows take place for us and also the discussions we have with our clients on the final accounts settlements we have on these projects. And sometimes, they take time to get the final accounts settled. But it's reasonable to say that those projects will have an opportunity at least of having discussions with our clients on the final account.

Frederik Lunde
And finally, just on the scope expansion potential on your current backlog. Can you give some more flavour on what are the trigger points for clients to increase scope? Is it oil prices, is it reservoir characteristics, or is it just operational performance or other factors?

Jean Cahuzac
I think it's the combination of all that. I mean, what we've seen is a very low investment on non-essential CAPEX by the clients overall, so I mean through the downturn. The priority of the clients today is to

maintain production on the existing infrastructure. And we see here again some gradual improvements to actually extend some of the work of the project, but it will gradual too. I mean, it's not a V-shaped recovery that we are foreseeing, and that's why we gave the guidance that we gave.

Frederik Lunde
I'm looking forward to resume share buybacks. And good luck in the future.

Operator
The next question is from Jordan Patel from Bernstein. Please go ahead, your line is now open.

Jordan Patel
Good afternoon, everyone. Two questions from me, please, and I'll take them separately, if that's okay. The first is about Petrobras PLSVs and Brazil. So, could you give us little bit of colour around the contract extensions, and particularly the timing of the award? To our understanding, there's no additional phases of work which have been sanctioned, nor have any other PSLVs been cancelled or rescheduled. So, could you give us a little bit of further insight really as to why Petrobras has done this now and, most curiously, around the unchanged day rates? Thank you.

Jean Cahuzac
Well, I think I would put that first in the context of what we've been saying for a while, which is that we were confident that the new-build PLSVs were not a threat and was not under threat. I think when you look at the PLSV contract extension and the timing, it's a reflection of several factors. And that's what discussion we had with Petrobras, which includes timing of the new-build start-ups. And they are all being delivered within windows, but we actually discussed with them the window of the start-up and release of some lower-tonnage vessels that you've seen last year.

Something which cannot be underestimated is the relationship with Petrobras and the performance of our operation. So, I think altogether, we've been able to define with Petrobras a solution which is a win-win for both sides. And we're quite pleased that Petrobras agreed to keep the same rates and the same terms and conditions as the original contract which, as you know, has inflated our index of inflation and everything that you need for this type of contract. So, I think both sides are pleased with the outcome.

Jordan Patel
Makes sense. My second question is on guidance. Looking at results, looking at the state of play as we are now, it seems like we're in a not dissimilar position to mid-year last year. And last year, we saw a strong 1H 2016 beat. Your guidance was not updated. You know, your guidance, down margins year-on-year, implied a very tough second-half. In actuality, you produced a pretty decent second half, ended up beating guidance. If I look at 1H 2017 since and guidance today, we seem to be in a relatively similar position. And it doesn't seem impossible to me, particularly mindful of how many projects you're set to complete, that you'll beat that guidance. The question I have is clearly a very open-ended one, but it's really how can we be confident in guidance? How can we be confident that there are operational factors within the business that will drive the un-wind? Any colour you could give on that would be much appreciated.

Jean Cahuzac
Jordan, just one comment and I will let Ricardo elaborate a bit more. When we look at 2018, we are making a number of assumptions. And based on our confidence, the first very important point is that I'm quite confident that we will continue to execute the projects in an excellent manner in 2018 and onwards. And that's obviously absolutely key and explains, to some extent, the results of the past.

Regarding what we see of the future, a number of projects are coming to an end. The projects that we signed in 2016 and 2017 have been projects where we've seen pressure on margins, and we've been talking about that in previous earning calls. So, the market today is seeing in 2018 a bit more of a challenge, and I think we are having a similar view. I mean, 2018 will be different from 2017, and we have given some guidance on 2017. Talking about 2017, I think we are confident that we will continue to deliver good results. And we gave a guidance of slightly lower margin in 2017 than 2016, but I still expect good results.

Ricardo Rosa
And if I can just add on what Jean has been saying, I would emphasise that we have adjusted guidance already once this year at the revenue level and at the EBITDA percentage margin. And I want to emphasise too that we're talking about EBITDA percentage margins here. We had a record margin in 2016 and, based on the mix of projects that we are executing this year, we don't see the company obtaining that margin percentage in 2017.

Bear in mind that the Beatrice project really kicked off this year. And we've highlighted on a number of occasions that there is a significant proportion of procurement within that project, which tends to flatten or reduce margins. On top of that, we've already discussed the integration of ECS and its activities in the Middle East. So, when you factor those two elements into the trend that Jean has already talked about, of all the projects rolling off and being replaced by one so that there's being one in a tougher environment in the cycle, I think our guidance makes sense.

Jordan Patel
I don't think the integration of ECS, for me, was the key moving part which has enabled this turn to stay still. But thanks for the comments, it's much appreciated.

Operator
The next question comes from Michael Rae from Redburn. Please go ahead, your line is now open.

Michael Rae
Just two quick ones. The first is, can you give us an update on the acceptance of the integrated procurement model among your customers? Is there enough evidence emerging to suggest that that's the way forward for the industry, or are you finding that in your conversations customers are still open to both approaches?

And then the second one, just briefly: on slide 18, it looks like you don't categorise these Renewable opportunities in the same way as the SURF projects. So, I'm just wondering, when you talk about these projects in Europe and Taiwan, can you give a rough steer on the potential size of some of those? Are there any that would creep into the large or very large category that you use to label the SURF prospects? Thanks.

Jean Cahuzac
I will take the first question; John will address the Renewable question. We clearly see a momentum today in our alliance with OneSubsea Schlumberger, and more interest from the clients on this vertical integration. I think we also demonstrated with the success on project awards to the alliance of a multi-dimension – the Mad Dog, and the TAQA project – that, in fact, the alliance was working very well. So, I would say it's a trend which has started. We see more and more of these projects in the future, and a number of operators are quite interested to consider this alliance as a best case of options for their future work. So, I'm quite encouraged from what we've seen. When the market picks up, we will see more of these projects. Regarding Renewables, John?

John Evans
On the Renewables in Taiwan, they're obviously experimenting and understanding how to make an offshore wind industry work for them. So, the fields are generally smaller, the wind farms are generally smaller. And we're looking at one which will be an EPIC and one which will be a T&I project, so nowhere near the scale of Beatrice there. In the North Sea at the moment, they generally are transport and install-type projects that we are bidding, at the moment. And as we said at the very start, with Beatrice, half of them have done a Beatrice per year in the industry. And we'd expect to see a Beatrice once every two to three years in terms of size and scale because that's, by far, one of the largest EPIC projects in the North Sea at the moment.

So again, it's about the different countries that we work in – in Germany, in Denmark, in Holland and in the UK – and the timing at which the different wind parks are awarded and then which choices clients make. Some clients go for transport and install, and manage the projects themselves; other clients then go for an EPIC approach, where they try to package a number of the elements together into packages such as we see on Beatrice.

Jean Cahuzac
There are also two large projects in France for a 124-turbine installation, which are likely to go to sanction in 2018. And we'll see what direction it goes in terms of project model and commercial model. But that's two large projects which will awarded to market in 2018.

Jean Cahuzac
With that, I think we have to close. We'd like to thank everybody for participating to this Q2 Earning Call, and we're looking forward to discussing with you at the next earning call. Thank you.