Subsea 7 S.A. Release of Q4 2016 Results

Transcript

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Speakers:

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

Isabel Green - ***Subsea 7 - IR Director***

Welcome, everyone, to our fourth quarter and full-year 2016 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 from our website, along with the presentation slides that we'll be referring to on today's call.

Turning now to **slide number 2**, take note of our forward-looking statement disclosure. Similar wording is also included in the press release.

Jean Cahuzac - ***Subsea 7 SA - CEO***

I will start with the highlights of our performance in the fourth quarter and full year, before handing over to Ricardo, who will cover our financial results in more detail.

I will include a review of some of our actions that ensured good delivery through the downturn and steps we have taken to position Subsea 7 for the long term. As usual, we will take your questions at the end of the call.

I shall start with our highlights for the year on **slide 4**. We delivered consistent and safe operational performance in 2016. Our progress on projects worldwide exceeded expectation, delivering the right results for our clients on schedule, and in an efficient and safe manner.

Vessel utilization, at 66% for the year, reflects industry-wide lower levels of activity. However, through good fleet management and a reduction in chartered and own capacity, we achieved active vessel utilization of 80%.

Order intake in the year was $3.4 billion, 0.9 times the revenue reported for 2016.

Our cost competitiveness, innovative technology and track record of good execution allowed us to capture a significant share of the market. Even so, SURF order intake was significantly lower than in 2015, reflecting the cyclical downturn in offshore oil and gas activities.

Our largest award was in renewables, for the development of the Beatrice offshore wind farm project. We are delivering this, together with Seaway Heavy Lifting, our joint venture company, which operates two specialist heavy lifting vessels.

The Beatrice project affirms our presence in the growing offshore renewable energy market. It relies on the expertise of Seaway Heavy Lifting, which has significant transport and installation experience, having previously installed several hundred wind turbine foundations.

Our performance through the downturn has been supported by early action to adjust our capacity, while maintaining the capability that differentiates our services.

In 2016, we further reduced our workforce and fleet of active vessels to lower our costs. As of today, our resizing program is nearly complete. We have improved our competitiveness by changing the way we work and continue to take steps to ensure we are well positioned for the long term.

Slide 5 shows some of the projects we have been working on this year. We completed a number of North Sea projects, including several bundled solutions in the UK. We also completed the TEN project for Tullow in Africa.

We made good progress on or project in Egypt and maintained a high level of utilization for all our active PLSVs working offshore Brazil for Petrobras.

i-Tech Services performed well, with life of field projects and frame agreements.

Moving now to the financial results on **slide 6**. In the fourth quarter, we generated $288 million adjusted EBITDA on $932 million of revenue, giving a 31% margin. Adjusted diluted earnings per share was $0.27 and excludes the goodwill impairment charge.

We ended the year with a strong financial position. Net cash was over $1.2 billion, reflecting significant cash generated from operations.

The market outlook has started to improve, but the deterioration in some areas compared to our view at the end of 2015 resulted in impairment charges related to goodwill and other assets in the quarter.

For the full year, our revenue was $3.6 billion and adjusted EBITDA was $1.1 billion, giving a margin of 32%. Adjusted diluted earnings per share, which again excludes the goodwill impairment charge, was $1.54.

In light of our excellent operating performance, resulting in a strong financial and liquidity position, the Board of Directors will recommend a dividend of NOK5 per share, equivalent to a total dividend of approximately $200 million.

Turning now to **slide 7**, industry conditions remain challenging. Operators and suppliers have taken measures to adapt to lower oil and gas prices, developing more cost-effective solutions and reducing capacity.

By taking strong action to reduce our costs and engaging early with our clients, we were able to maintain a strong performance with the downturn while protecting our capability and grow our competitive position.

The oil price has achieved a degree of stability in recent months and this has helped our clients to move forward with some project sanctions, based on sustainable low cost solutions we have helped to design.

There is evidence of positive momentum on offshore projects. Our conversations with clients give us cause to believe that SURF project awards to the market could increase within the next 12 months.

Offshore construction activity is relatively late in the project cycle, so any pickup in awards may take a year or two before materially impacting our revenues and bottom line.

Turning to our backlog on **slide 8**. We ended the quarter with $5.7 billion of orders, $3.3 billion of this backlog was for execution in 2017.

In the fourth quarter, order intake was approximately $600 million, and included four projects that merited individual announcement.

We were awarded the Atoll, project based on our established presence offshore Egypt, and reflected our track record of successful execution.

We were also awarded the Greater Western Flank project, offshore Australia. It's our fourth award from Woodside in recent times, clearly an endorsement of our commitment to worldwide operations and local presence.

Our client partnership accord with Centrica enabled the Oda project in Norway to progress. Our award for the SURF scope was a direct result of our long-term commitment to work together.

The final award on this list, the Dalmatian project for Murphy was strategically important to us, as it was the third integrated SPS and SURF award for our subsea integration alliance with OneSubsea. This award evidenced the strength of our integrated SPS and SURF approach, which is an exclusive and global commitment to work together.

This week we announced the award of the Sole project offshore Australia. This was not included in the $5.7 billion backlog at year end and will be included in our 2017 order intake.

Our long-term contract for PSLVs offshore Brazil represented $1.8 billion of our backlog at December 31. Just after the year end, our contract for *Seven Mar* was cancelled, as a result of local loads that prioritize vessels with the Brazilian flag. This early termination removed approximately $100 million from our backlog.

Slide 9 summarizes our business unit outlook. We are actively tendering a number of SURF projects. It remains a very competitive market, but we have a strong offering and our strong discipline on the right project risk profile hasn't changed.

The awards listed on this slide represent some of the largest and most likely awards to the market. The timing of these remain uncertain. Domestic gas projects and tieback developments remain the most likely projects to proceed near term.

Our i-Tech Services business unit continues to expand its footprint and is tendering for frame agreements in Angola, Brazil and the US Gulf of Mexico, as well as maintaining its market-leading presence in the North Sea.

We continue to look for diversification in offshore renewables and our joint venture company, Seaway Heavy Lifting, remains very competitive in this sector.

I will talk more about our vision for renewables later on. I will now hand over to Ricardo to discuss the 2016 financial performance in more detail.

Ricardo Rosa - ***Subsea 7 SA - CFO***

Starting with the highlights from our income statement on **slide 11.**

Fourth-quarter revenue was $932 million, taking the full-year 2016 to $3.6 billion. This was approximately 25% lower than in 2015, reflecting lower offshore activity levels, as several large projects were completed in the course of the year.

Adjusted EBITDA of $288 million in the quarter and $1.1 billion in the full year resulted in margins of 31% and 32% respectively. The higher percentage margins resulted from a reduced cost base, a high standard of execution and risk management, and strong contribution from projects that were successfully completed.

Included in the full-year adjusted EBITDA was a $97 million restructuring charge, in relation to the cost reduction and resizing program that we announced in June 2016.

We recognized a $90 million goodwill impairment charge in the fourth quarter. Excluding this impairment, we generated full-year net operating income of $611 million and adjusted diluted earnings per share of $1.54, up $0.09 on 2015.

Slide 12 provides more detail behind the income statement. Our reported net operating income of $521 million for 2016 included $158 million in asset impairment charges in addition to the goodwill impairment.

$147 million of these charges were recognized in the fourth quarter. They related to equipment, onshore facilities and vessels that are nearing the end of their useful life or have capability constraints. Our global enablers and new build vessels did not suffer any impairment.

Net finance income was $11 million for the year. Other gains of $45 million, mainly related to non-cash foreign exchange movements and income before tax was $577 million.

The tax charge for 2016 was $158 million, equivalent to an effective tax rate of 27%. Net income for the year was $418 million.

I will now turn to **slide 13** to cover the fourth-quarter performance for each business unit, excluding the goodwill impairment charge in both 2016 and 2015.

Fourth-quarter revenue was $932 million, down 9%, compared to the prior year period. 2016 revenue included $142 million revenue from our corporate segment, which was mainly related to the Beatrice wind farm project. This project will continue to have a significant impact on our results in 2017 and 2018 with a further $1.1 billion of backlog due to be executed over that period.

Our corporate costs included those of our corporate functions and running costs of our stacked vessels. It also included $100 million of the $147 million impairment to property, plant and equipment charged in the quarter. This together with a lower contribution from our joint venture, Seaway Heavy Lifting, explained the $99 million net operating loss reported in the quarter.

The SURF and conventional business unit reported $705 million revenue, and $153 million net operating income, including a $38 million charge relating to asset impairments.

The lower year-on-year revenue reflected the decrease in activity as projects were successfully completed. However, our action to reduce costs to adapt to market conditions helped to lessen the impact on net operating income.

i-Tech Services business unit revenue of $85 million was 14% lower compared to the prior year period. This was due to an increase in activity in Australia, Norway, and the US Gulf of Mexico, which was off-set by a decrease in activity Offshore UK and Brazil.

Net operating loss of $9 million was in line with 2015, despite the inclusion of a $9 million asset impairment charge. It benefitted from higher vessel utilization and group-wide cost reduction measures.

Slide 14 provides the breakdown of our business unit performance for the full year.

Revenues reflect lower activity for SURF and i-Tech Services and the start of the Beatrice project for corporate, in line with the trends reported in the fourth quarter.

Net operating income for SURF was $717 million, 15% lower year on year, and included asset impairment charges of $49 million in 2016 and $8 million in 2015.

i-Tech Services and corporate reported improved net operating results year on year with net operating income of $38 million, and net operating loss of $144 million respectively.

These improved results reflected the positive impact of cost reduction measures, and lower restructuring and asset impairment charges recognized within the corporate business unit, compared to the prior year.

Turning to **slide 15**, I will explain some of the key drivers of our EBITDA margin performance.

The 32% adjusted EBITDA margin we reported for 2016 continued a trend of out-performance that exceeded our guidance. This level of margin is not sustainable and we continue to guide to a significantly lower percentage in 2017.

Our out-performance is being driven by a number of factors:

Firstly, we acted early to reduce our capacity and costs to align with expected lower activity levels. We had good visibility, due to the long lead time for offshore operations, and so were able to remove costs as projects were being executed and completed. We also implemented a number of successful initiatives to promote cost awareness and organizational efficiency, both onshore and offshore. As we have retained capability and expertise for the long term, our costs will not be as well covered across activity levels in 2017 and 2018.

Secondly, we have been executing well and mitigating the operational risks inherent to our projects. This has resulted in lower operating costs for us and our clients, as projects have been completed on time, and with positive outcomes.

Thirdly, the mix of our SURF activity has changed and, as a consequence of fewer lump-sum projects, has resulted in a greater proportional contribution from our PLSVs offshore Brazil.

These PLSV contracts, which are day rate with minimal procurement, have a higher EBITDA margin than most EPIC projects, reflecting their comparatively high capital intensity.

Furthermore, the relative progress of SURF projects has been favorable in 2015 and 2016. We account for revenue and costs on a percentage of completion method, which can lead to an uptick in margin during the final stages of projects, driven by good operational execution, effective cost management, and successful commercial closeouts with clients. This phasing will be less favorable going forward, with fewer large projects completing.

The final driver I wish to highlight is the market environment, competition for awards is high and the projects we are winning today tend to have a lower margin than the contracts awarded in better times.

We expect the market to improve in the future, when more projects are sanctioned and awarded. But, in the near term, it will have an adverse impact on the Group's margin.

This list is not exhaustive, and it may change over time, but it should help explain why we expect the recent trend to reverse, and why the timings of these changes have been difficult to predict.

Slide 16 summarizes our expenses divided into four categories, and illustrates the $1.2 billion cost savings and efficiencies we have delivered on vessels and people costs since 2014.

Vessel costs which included asset impairment charges in all three years have been reduced by $200 million. This has been achieved by disciplined vessel deployment that has enabled us to concentrate activity on fewer ships, so that excess capacity can be released, either by returning chartered vessels to their owners, or selling, or recycling owned assets nearing the end of their useful life.

People costs have been halved to $1 billion. This includes all permanent and contracting staff, both offshore and onshore. We have reduced our costs by resizing our workforce from over 14,000 in 2013, to 8,500 at the end of 2016.

Furthermore, we have altered terms and conditions for offshore crews and contractors to reflect the market environment, and to enable us to retain more of our experienced and highly skilled people for the long term.

People costs included $97 million of restructuring charges in 2016, and $136 million in 2015, relating to the resizing programs announced in each of these years.

Procurement and other direct project costs are a function of the volume, mix, and phasing of our activities, we are able to make savings through smart procurement and cost discipline. But most of the $1.8 billion reduction is due to the lower activity levels, and not directly attributable to cost reduction initiatives.

As we start the offshore phase of the Beatrice project in 2017, we will see an increase in our procurement costs, including all of the heavy lifting vessel time being provided by SHL, our non-consolidated joint venture, as well as the cost of fabricating the 84 jackets.

Our depreciation and amortization costs were largely unchanged year on year.

I now turn to **slide 17**, which provides an overview of our cash flow for the year. We ended the year with cash and cash equivalents of $1.7 billion, and $1.2 billion net cash after offsetting the $427 million outstanding on our convertible bond. This is a substantial improvement on the prior year, mostly as a result of our EBITDA performance.

Working capital movement in the year was favorable, being a net inflow of $40 million. The outflow from project completions was less than expected.

Capital expenditure in the year was $300 million, slightly below our guided range. Our new-build program was substantially completed in the year, and our sustaining Capex was kept to a minimum.

Our financial and liquidity position remains strong. In addition to our cash balance, we had $1.1 billion of available credit and guarantee facilities available at the end of the year.

We have extended the term of our revolving credit facility for two years to 2021. And, since the yearend, we have drawn $301 million under the export credit agency facility.

Moving on to **slide 18**, we have set out here our project priorities for capital allocation. We are committed to remaining a leading strategic partner in our markets. We support this by investing in our differentiators, and taking the right opportunities to grow and strengthen our business. This is our first priority for capital allocation.

We maintained our investment in our new-build assets through the cycle, at a time when some of our competitors were cancelling or delaying their investment programs.

As a result, we have added six modern and cost-efficient vessels to our fleet in a program that not only met our needs for timing of delivery, but was completed for a lower cost than initially anticipated.

We have invested in our technology programs which in-house development, collaborative development with our alliance partner OneSubsea, and through the acquisition of pipeline technologist Swagelining.

At the start of 2017, we made a binding offer to acquire the remaining 50% ownership interest in Seaway Heavy Lifting, which, if accepted, will increase our presence in the growing renewables and heavy lifting markets.

This week we committed to providing some debtor-in-possession financing for Emas Chiyoda Subsea (ECS), as it commenced its chapter 11 proceedings. It's a secured loan with limited downside risk. By participating in this way Subsea 7 is able to explore more value adding opportunities.

Subsea 7 has not taken an equity position, and does not have any operational exposure to the contracts being delivered by ECS in the subsea market.

Our second priority is maintaining our investment grade profile, it is our strong financial and liquidity position that enables us to invest, and gives confidence to our clients that we will be here to serve them over the long term.

We have increased our cash balance and reduced our outstanding debt throughout the downturn, with disciplined cash management and a focus on cost reduction.

Our third priority for capital allocation is to return cash to shareholders. We do not have a policy of paying a regular dividend, given the volatile nature of our business, and our first priority is to invest in future growth over the medium term.

Nevertheless, we evaluate returning to cash shareholders on a regular basis. We have a good track record in this regard with over $1 billion returned since 2011 through special dividends and share buybacks. Today, we have recommended a special dividend of NOK5 per share, equivalent to approximately $200 million, to be paid in April 2017.

In addition to this, our mandate to repurchase shares remains in place until July 2017.

Turning to **slide 19** and guidance. Our guidance for revenue and adjusted EBITDA percentage margin in 2017 is unchanged, with revenue expected to be broadly in line with 2016 results, and adjusted EBITDA percentage margin expected to be significantly lower.

Our administrative expense is expected to be between $190 million and $210 million, a reduction from 2016, as we see the full-year impact of our cost reduction measures.

Our net finance cost is expected to rise between $10 million and $15 million, as we will no longer capitalize interest expense now that all the new-build vessels have been delivered.

Our depreciation and amortization expense is expected to fall between $370 million and $390 million, as the charges related to the new vessels are offset by the reduction resulting from impairments in vessels that are leaving, or have already left, our fleet.

The effective tax rate is anticipated to be between 45% and 50%; higher than in 2016, due to our geographic mix of our expected activity in the year. Not all jurisdictions have tax regimes linked solely to profitability and, given the profile of some of our entities, we cannot always recognize a tax benefit for the losses they may incur, particularly during a prolonged downturn.

Finally, capital expenditure is expected to be between $160 million and $180 million. This is mostly related to the existing fleet, with certain vessels requiring class-related dry dock maintenance.

Jean Cahuzac - *Subsea 7 SA - CEO*

[Slide 21]
Subsea 7 is a leading strategic partner in our markets. We have earned this position by delivering consistent results for our clients, and having the strategic vision and capability to remain at the forefront of industry trends.

Early in 2014, we recognized a change in market condition that precipitated a structural change to a lower-cost environment. Our prompt actions to restructure and revise gave us a quantitative advantage, and contributed to our strong margin performance in 2015 and 2016.

We also took steps to ensure Subsea 7 is well positioned for the long term. We invested in our differentiated capability with technology innovation and new vessels. We diversified our market exposure with increased renewable activity; and we strengthened our offering with partnerships and alliance.

Slide 22 details our cost-reduction measures in more detail. In 2014, we implemented cost efficiency measure, and began to resize our workforce to meet the anticipated lower market activity in certain geographies. We ended 2014 with approximately 1,000 fewer people than we had at the start of the year.

As the downturn intensified in 2015, we launch a Group-wide program to reduce the capacity of most of our fleet and workforce. By early 2016, we had approximately 3,500 fewer people worldwide; and 12 vessels had left our active fleet.

In June, last year, we announced further reductions and, as a result, our workforce is now 40% smaller than at the start of the downturn.

We removed excess capacity, and modernized our fleet. By the end of the first quarter 2017, we will have removed 11 vessels from our total fleet, and three vessels will be stacked.

We will soon be sending *Seven Discovery* and *Rockwater 1* for recycling. We will stack *Seven Mar* upon her return from Brazil; and at the end of March we will return the chartered vessel *Normand Oceanic.*

But succeeding through the cycle is not just about cutting costs. Recognizing the change, and acting early, enables us to build on our strength and values, to position for the long term.

Slide 23 illustrates the importance we on technology and innovation. Subsea 7 owns one of the largest and more recent group of patents in our market segment. Being first to market with a new concept can give us a competitive edge, or first-mover advantage, that, over time, can be converted into order intake and better margins.

We have concentrated our investment in five strategic programs, which have compelling commercial advantages. An example of this is our strategic investment in pipeline technology, which has led the development of electrically heated straight flowlines, to enable longer tiebacks.

Most of our innovation is done in-house. However, we are also willing to acquire technology or collaborate with others, if we believe that we can contribute to its development, or bring it to market more efficiently.

In 2016, we took the opportunity to acquire Swagelining, a leading pipeline technologist that we have worked with for many years. It added a number of current and pending patent and solutions to our portfolio, which we can now offer to more clients worldwide.

Slide 24 details our investment in our fleet. Subsea 7 has a modern and diverse fleet of vessel. The scale, capability and versatility of our fleet is a competitive advantage. It enables us to meet our clients' needs more efficiently and effectively. To retain our competitive advantage, and to meet the evolving needs of deep-water and harsh-environment activity, we have invested in the addition of six new vessels.

This program of investment started in 2012, and was completed in January 2017. Its cost of $1.9 billion which is lower than original guidance, as a result of good project management and commercial discipline.

Turning to **slide 25**. We operate in a dynamic industry. One of the fastest-growing and developing offshore energy sector is renewable energy. We have been working with clients on windfarm foundation for many years.

Our joint venture, Seaway Heavy Lifting, owns two specialist vessels that meet the rising needs in this segment, and last year 95% of its revenue came from windfarm installation.

Subsea 7 is increasing its exposure to this growing market. In January, we made a binding offer to acquire the remaining 50% ownership in SHL. If its offer is accepted, it would become a wholly owned subsidiary of our Group. We made this offer because we believe that it strengthened our position in structural growth markets, and position us well for the long term.

We are making progress on this acquisition, and we let you know when the final conclusion is reached.

Slide 26 shows the progress we have made in establishing industrial alliance and client partnerships. Collaboration is one of our Company values: working together leveraging our global know-how and capabilities. Our strategic vision, for the long term, embraces collaboration. Earlier client engagement establishes the right solution that enables cost-effective development at offshore fields.

Our alliance with OneSubsea has gained momentum during the year. Our teams are working well together, and our clients are interested in the combined solution we have been proposing.

Our Subsea Integration Alliance was awarded its first SPS/SURF integrated EPC award in 2016; and we are presently competing on a number of other integrated tenders.

Our pure-play model helps us to from long-term collaborative agreements and client partnerships. As a specialist contractor in our market, we adapt our offering so that each client gets each service it needs and wants. This creates a good relationship that enhances the value we deliver.

In 2016, our client partnership resulted in awards under a multi-year frame agreement for AkerBP and the award of the other projects with Centrica.

To conclude, let's go to **page 27**. The market remains challenging, with high levels of competition and relatively low level of activity presently, but we have seen encouraging signs. The more-stable oil price gives our clients confidence to review, and move ahead with, project sanctions.

In this context, we anticipate a gradual recovery of our business environment, and believe that there could be increase in SURF awards to the market within the next 12 months.

We do not intend to change our approach in 2017. We will remain focused on execution; we will control our costs; and keeping the right risk profile when bidding for new jobs.

We believe that this approached, combined with a consistent focus on our key strategic initiatives, positions Subsea 7 well for an expected middle-term market recovery.

Questions:

Andrew Dobbing ***- Danske Bank - Analyst***

A quick question on trying to understand your operating costs, and how they're going to trend as we go into 2017. You've given the split again, which is very useful. You've also, highlighted that your headcount's going to drop in 2017.

I assume it's fair to believe that total employee costs are going to be down in 2017 versus 2016, unless there's something else going on there. Yet, it does seem that consensus forecasts, at the moment, are implying a very significant increase in total recurring operating costs in 2017 versus 2016.

That doesn't make any sense to me. But is there anything else that I should be thinking of in terms of understanding how that trend is going to be from 2016 into 2017? Thank you.

Jean Cahuzac ***- Subsea 7 SA - CEO***

Our headcount in 2017, I expect to remain stable, and potentially grow later in the year, if there is a need for new projects.

We have completed our downsizing plan. As we mentioned before, we maintain capability in the Company, and we think that we are where we need to be.

Andrew Dobbing ***- Danske Bank - Analyst***

I guess the headcount's dropped. On average, the headcount's going to be down, I guess, a fair amount in 2017 versus 2016, and I guess the cost per employee is not going up. That would at least imply that perhaps there should be some downside versus the $1 billion that you reported for 2016.

Ricardo Rosa ***- Subsea 7 SA - CFO***

I think regarding the impact we should see some of the annualized benefit of the measures that we've taken in 2016. Obviously, you won't have the recurrence of the resizing charge that we took in 2016.

I think what we want to emphasize, however, is that the second phase resizing that has been largely completed is not going to result in further significant reductions in our cost structure.

I think Jean has flagged the possibility that, depending on how activity pans out in the year, we may see perhaps a slowing of the headcount reduction, or potentially even a minor uptick.

Fiona Maclean ***- BofA Merrill Lynch - Analyst***

A couple of questions. Firstly, on the tax guidance that you have given. Could you be a little bit more specific as to what regions are contributing in 2017 to such a large change in the tax rate that you've guiding to?

Then, secondly, just like to get more color on the thinking behind the Seaway Heavy Lifting offer that you came out with earlier this year.

And then, last question is on your guidance around EBITDA. When we look at your guidance over the last two or three years, you have consistently spoken about EBITDA margins declining quite materially. And that's not happened, it's actually gone the reverse.

So, what can you say to us today to convince us that your margin is actually going to decline next year, rather than be stable or go up very slightly? Thank you.

Jean Cahuzac ***- Subsea 7 SA - CEO***

I will take the question on Seaway Lifting first. We've been in the renewable business and heavy lifting business through our joint venture with SHL for quite a long period. Over the years, Seaway Heavy Lifting has continued to develop as a very efficient company in this area.

We are seeing, in West Europe, a potential increase of activity in renewable. We had the opportunity to buy the 50% of our joint venture partner, who had decided to go a different route.

The combination of a growing market, the fact that SHL is a very performant company, and the fact that we believe we can acquire this 50% at a good price, led us to take the conclusion to invest in SHL and develop this business further in the future.

Regarding the tax guidance and EBITDA, Ricardo, do you want to comment?

Ricardo Rosa ***- Subsea 7 SA - CFO***

On the tax guidance, I don't see much value in being more specific about the regional aspects of it.

I think what I want to emphasize in my opening comments with regard to the ETR is that we operate in several countries with varying tax regimes. In some of those countries, those tax regimes don't necessarily have a tax charge that's linked directly to the profitability of the operating entities that are active there.

You can have minimum tax charges. You can have revenue-linked tax charges as well. So, regardless of our level of profitability, you do end up with a burden.

In addition, depending on the specific profile of certain entities, we're not in a position, at this stage in the cycle, to recognize and take the accounting benefit of tax losses that are being incurred. What you have is potentially a loss that's incurred by a particular subsidiary, that is not mitigated by a reduced tax charge.

So, when you put all this together, particularly in a period of a prolonged downturn that we have seen, and where you've had significant margin pressure, there is an impact, a negative impact on the ETR.

What I do want to emphasize is that there's been no structural change in our tax profile; this is business-cycle linked. I do want to emphasize too that the ETR rate is very sensitive to our level of overall profitability. Therefore, we'll keep you updated in course of the year as our estimates of the full-year tax burden adjust as a function of activity trends.

Jean Cahuzac ***- Subsea 7 SA - CEO***

The question on the EBITDA and the EBITDA guidance.

For all the reasons that we mentioned in the past, we're coming to the end of the completion of project, which was signed in better circumstances and we are close to complete all these projects.

We've been bidding for the last 18 months, like the rest of the industry, at lower margin. We also see kind of a lag time in new project award, although we -- as we've said before, we see some light at the end of the tunnel in this area.

So, it's not a surprise that the EBITDA should be significantly lower -- the EBITDA margin should be significantly lower in 2017 compared with 2016.

Phillip Lindsay ***- Credit Suisse - Analyst***

I'll take the two questions if I could. The first one, I just want to pressure you on the competitive environment, you said that pricing has been under pressure for a while now; how would you describe the current environment, and perhaps you can put it in the context of the environment that you saw back in 2009/2010/2011. Clearly, the landscape has changed since then, but to your mind does it look similar, worse, or better? That's the first question.

Jean Cahuzac ***- Subsea 7 SA - CEO***

I think regarding the pressure on the margin environment, we are seeing a lot of pressure on margins. As we said before, although we have indication that because the operators with the more-stable oil price are considering to put some projects back on the table but it hasn't happened yet.

So, we are seeing a lot of pressure on margins. Difficult to quantify, but probably not very dissimilar to what we saw in 2009. It's typical of what happens when you are at the bottom of the downturn. I think we're at the bottom of the downturn; things will improve in the future.

Phillip Lindsay *- Credit Suisse - Analyst*

And then the second question is just around vessel strategy. Clearly, through the downturn you've been bringing the number of vessels down, and as you say, the six-vessel new-build program's now complete.

But some of your recent strategic moves, I suppose indicate a bit of a reversal in terms of capital intensity. You're going to consolidate the two SHL vessels; we'll see what comes out of the M&A situation.

But can you just talk us through your vessel strategy is evolving and how this might impact capital intensity moving forward?

Jean Cahuzac *- Subsea 7 SA - CEO*

Yes, we haven't changed our approach regarding our vessel strategy. We'd like to remind you that four of the vessels, which are the PLSV, were built against good five-year firm contracts, which are not under threat. So, there it was a cautious approach.

We also have this approach to be on the top, on the high end of the vessel, and we have achieved that through the construction of *Seven Arctic*, for instance.

Regarding when we are going to see activity picking up, there will be a vessel available for chartering without adding significant CapEx to actually capture the opportunities of market growth. So, I think we are in a pretty good shape.

Regarding the SHL investment, we are not looking at it from a vessel perspective. SHL is a project and drilling company, and we are going to develop this project and drilling company even further. So, the vessels are tools to execute the projects and the added value of the project is the reason for such investment; it's not just to acquire vessels.

Phillip Lindsay *- Credit Suisse - Analyst*

And the M&A situation, is there any further comment there?

Jean Cahuzac *- Subsea 7 SA - CEO*

No further comment. As in every Charter 11 process, it's very difficult to see how things will evolve. As we announced, we have limited de-financing participation, which is secure. We'll see how things evaluate and if there are some opportunities for Subsea 7 to capture some interesting deals. Again, the process can go a different way, so I won't comment further.

Ricardo Rosa *- Subsea 7 SA - CFO*

I would re-emphasize what I said in my opening comments, that there is no equity participation in ECS by Subsea 7. We have absolutely no involvement at all in the execution of their existing contracts.

John Evans *- Subsea 7 SA - COO*

Just one item further on the vessels. One important thing to remember is all the chartered vessels that we be returned, we've taken all our equipment off: all our ROVs; all our vertical lay towers; all our pipe-lay equipment. We have all that stored and being maintained the moment.

To come back to Jean's point, when the market starts to build up again, there is sufficient tonnage in the market out there. But the more important this is we actually have the equipment and the people to operate that equipment to then support the projects that come with us.

As Jean says, there's no fundamental change in our strategy. It's adapting it to the market and then being ready for when the market turns.

Jean Cahuzac *- Subsea 7 SA - CEO*

It's an important point, John, that you mention. What's important in a downturn is to maintain capability. I'm confident that we have maintained capability, both in terms of people expertise and equipment to capture opportunities when this market picks up.

Amy Wong ***- UBS - Analyst***

I have two questions, please. I'm trying to get a sense from you how your trends in your sub-supplier costs are going. In particular, I'm interested in say your vessel operating costs. Have you seen those costs bottom out yet? Or can you still pressure other operating costs lower in your sub-supplier costs?

The second question relates to more an industry trend. With the tiebacks getting longer, how should we think about how SURF versus SPS equipment will capture the total subsea capital expenditure in the next couple of years?

John Evans ***- Subsea 7 SA - COO***

On the supplier costs, we have seen, as we tendered the work, the view that the supplier market is also moving downwards in terms of cost base. We have captured that. Quite often that is passed back to our clients to make sure that we can sanction projects in today's world to get that to move ahead.

Our supplier cost base is a function of our market. As the market will turn, I'm sure we'll see some hardening in that place. But, at the moment, we're all in a similar place where the light is coming at the end of the tunnel. But it's a distance away, at the moment.

On the tiebacks getting longer, Jean, yes, that's a trend that we're seeing, that our clients are interested in making longer tiebacks work. Some of the technology Subsea 7 have delivered, such as the trace-heated pipelines assist in that.

Our world is around how does the SPS plus the SURF combined work out for our clients, in terms of the economics of the field that we're doing. Some of the work we're doing with our partner, OneSubsea, is very interesting in that world and we believe that the recovery trend will be around longer tiebacks in our industry.

Jean Cahuzac ***- Subsea 7 SA - CEO***

I think I'm also very pleased with the investment we've done over the last years on the fleet, because we have, today, a very good fleet to execute these projects, the tieback projects, all around the world. So, we are well positioned for this.

James Evans ***- Exane BNP Paribas - Analyst***

Firstly, I just wanted to ask a couple of questions tangentially related to the Emas Chiyoda situation.

First, are you seeing any of the existing backlog being retendered? I know that's been a feature of other recent bankruptcies.

Related to that, I know they have a position in the Middle East. There's also a separate report that you've been invited to speak to Aramco and maybe look at joining their long-term agreement program. Is that something that you're looking at with interest as part of the diversification strategy?

And just a quick one for Ricardo to maybe help square the circle on the question around cost. Would you be willing to share a rough number for what you think the increase in procurement budget should be at a flat revenue profile for this, for this year? You obviously hinted at it being higher thanks to the renewable activity. Thank you.

Jean Cahuzac ***- Subsea 7 SA - CEO***

To come back on your first question, starting with the strategy, we have been looking for a while on the opportunities in Saudi Aramco, and potential ECS. So, that could be an area where Subsea 7 could see some growth in the future. But future will tell.

Regarding the Chapter 11 process, I can't really go into detail, but as a reminder there is an obligation from the operator to let the company, which is in Chapter 11, execute the projects, unless such company is in default. We expect this project to be executed by ECS. And, as Ricardo mentioned, we are not taking any risk or liability on this project as part of our de-financing.

Ricardo Rosa ***- Subsea 7 SA - CFO***

As regards the procurement costs, James, I think the short answer is that, no, I'm not in a position to provide you with explicit guidance on the impact, on the expected trend in procurement costs as a proportion of total cost in 2017. What I will reemphasize is that, as a proportion of total, we're expecting it to be significantly higher than 2016 because of the phasing of the project mix that we have, the SURF project mix that we have in 2017.

As you rightly point out, the large fabrication activity and associated SHL vessel activity on the Beatrice project, which from Subsea 7's perspective is all cost. So, I think I drew out this point as one of the on the list of factors that will drive movement in our margin downward in 2017 against 2016.

David Farrell ***- Macquarie Research - Analyst***

I've got two questions, please. Firstly, on renewables. It looks to me as if that's a pretty fragmented market from the point of view of services into it. So, is there scope for Subsea 7 to further consolidate and offer other services within the renewable industry?

And sorry just to come back to EMAS Chiyoda, it doesn't seem to make much strategic sense trying to bail out one of your competitors. So, I'm just trying to understand the strategy there a bit more, because from a vessel and technology perspective it's not accretive. Should we assume you're trying to ultimately buy backlog here?

Jean Cahuzac ***- Subsea 7 SA - CEO***

To come back on the two questions. First, on the renewables, we are in a segment of the renewables with our two vessels where there is a fair amount of work and more work to come. We've been very efficient in this fabrication installation and structure for the turbines and for offshore wind.

We obviously will, in the future, review the strategy for renewables, like we are doing in SURF and life of field, and see what makes the more sense for Subsea 7 in the future. It would be premature to comment further on that.

Regarding the EMAS Chiyoda, again we have provided limited DIP (Debtor In Possession) financing, which is fully secure. We are not taking any risk which would relate to what companies the ECS are executing today. Future will tell how the Chapter 11 process goes, and if there are opportunities or no opportunities that Subsea 7 could capture.

Rob Pulleyn ***- Morgan Stanley - Analyst***

So, two questions if I may. Firstly, Ricardo, could you give us a bit of a steer as how we should think about working capital flows through 2017? You're back in a fairly sporty, negative balance and, obviously, projects will be finishing, although others may well be coming in.

The second question is to Jean. Could you talk a little bit further around the relationship with OneSubsea and its parent company, Schlumberger? Obviously, you signed the alliance with OneSubsea, not with Schlumberger, and yet it seems like your involvement on integrated bidding is fairly robust.

I'm just wondering to what extent we should expect Schlumberger's involvement in contracts, particularly on the equipment side, to automatically infer that Subsea 7 will be involved, or whether it's not quite so clear cut. Thank you very much.

Ricardo Rosa ***- Subsea 7 SA - CFO***

Rob, I guess I'll take the question on working capital, as you suggest. I guess that we have opted in 2017 not to give any explicit guidance, with regard to working capital, as we're expecting it to be

affected by a number of significant variables in the course of the year that could affect it positively or negatively.

Such variables include the rate of progression on the Beatrice project throughout the year and the milestones associated with that, together with the timing of the full close-out of certain residual major SURF projects that are carried over from 2016; and they're relatively few in number as you can tell from our investor presentation pack.

And more importantly, the timing of new project awards and the milestone payments associated with them. With all those variables at the moment, I'm hesitant, at this early stage of looking at 2017, to give any explicit guidance.

However, I would remind you have we have significant liquidity, more so than we had at the beginning of last year, which makes working capital movement less of a critical element in the cash flow equation.

Secondly, we do have our revolving credit facility as a back stop; it's $750 million. If we have any short-term volatility that takes us really by surprise, we have that as well. But I think that's an unlikely eventuality, frankly.

We do monitor our working capital trends very closely and we, clearly, build them into our cash flow projections.

Jean Cahuzac ***- Subsea 7 SA - CEO***

Regarding the alliance, a general comment and then I will let John comment more on more specific points. Our alliance with OneSubsea, as far as I'm concerned, goes very well.

We have very well-aligned teams. We see opportunities, we see a momentum with the client. So, we're quite encouraged what happened in 2016 and what will happen. I'm optimistic on what will happen in 2017 and the years to come.

But I would like John to comment a bit more specifically on OneSubsea and Schlumberger.

John Evans ***- Subsea 7 SA - COO***

Just so we're clear, we made an arrangement initially with OneSubsea which, at the time, was a joint company between Cameron and the Schlumberger organization. It's since become a 100% Schlumberger entity.

In the world that we explore with our clients about working together on integrated projects between the SPS and SURF, we do work as one Company in how we approach that. It's a productive relationship and it's a market that's evolving and clients are trying to understand what they want out of that as well.

On certain projects there is a benefit of the connection that OneSubsea has with the larger Schlumberger organization is a benefit. But again, we are trying to find the answers for each individual client on a particular project and how we do that. The main emphasis is the relationship between the SPS world and the SURF world, and how we combine that for clients to make that project sanction and work.

Frederik Lunde ***- Carnegie Investment Bank - Analyst***

First of all, I have to say I'm deeply impressed by how you managed the downturn operationally and also very happy to see that you started to employ cash, both the dividend growth, but also the Seaway Heavy Lifting and the potential investment in Emas.

My question's really that do you have a buyback mandate, I believe, which is still unused, or there is some excess capacity on that? Do you have any thoughts on that?

And secondly, coming out of this downturn, it seems like a lot of the Tier 2 players have been decimated or have disappeared. So, that should probably translate to better market balance next two to five years. Do you have any comment on that?

Ricardo Rosa ***- Subsea 7 SA - CFO***

Yes, I'll address the question regarding cash returns. I think in recommending the special dividend -- after reviewing and approving the full-year results, the Board was merely adhering to our past practice.

The only difference is that in the past two years, the Board recommended against the dividend payment, in the light of what, at the time, was a very uncertain and adverse market environment. I'm not saying that we're completely out of that yet, as Jean has already highlighted.

We have in place our share repurchase program. It's valid through July 2017. We have about $150 million as yet unused. We continue to view share buybacks as a flexible option to return cash within the mandate approved by the shareholders. So, it remains one of the two vehicles that we would use to return cash to shareholders.

Whilst the dividend process is a structured one and we've, if you like, maintained that routine at Board level of evaluating it annually, we are constantly and regularly evaluating, if you like, the flexible option that repurchases represent.

Frederik Lunde ***- Carnegie Investment Bank - Analyst***

Do you have any comment on the market balance with Tier 2 players?

Ricardo Rosa ***- Subsea 7 SA - CFO***

Sorry, the question on Tier 2 was the extent to which the extended downturn and the damage it's caused for our Tier 2 clients is changing the landscape, I think, from Tier 2 competitors, I beg your pardon.

Jean Cahuzac ***- Subsea 7 SA - CEO***

The Company has been able to maintain and develop a strong balance sheet and maintain quite an indication of who will be the winner of the asset downturn. It's more difficult to handle the challenge of a downturn for Tier 2, and we are seeing that every day.

I think what will happen for a Company like Subsea 7 at the Tier 1 is that our differentiator, that we will have developed over the last couple of years, in terms of all the engineering, in terms of the alliance; in terms of what we've done with the fleet, what we've done in terms of a new way of working probably will make us an even stronger company compared with the Tier 2 competitors in the future.

Frederik Lunde ***- Carnegie Investment Bank - Analyst***

And in that context, you could say the extent you're doing in Emas Chiyoda, could actually be seen as pulling up the ladder between you and Tier 2/Tier 3 players.

Jean Cahuzac ***- Subsea 7 SA - CEO***

No, as I mentioned before, Chapter 11 is a process, which can develop in a very different way, including not going out of Chapter 11.

The future will tell if there are opportunities for Subsea 7 or not. We are taking a prudent approach. We will always maintain this prudent approach on any decision that we take.

Kevin Roger ***- Kepler Cheuvreux - Analyst***

Maybe one question on the project that you underline on the slide 9. Maybe can you comment one on which you make a common bid with OneSubsea where you are making an integrated solution?

Also, maybe comment on Mad Dog Phase 2, because we had some press information that you are very well positioned to secure the contract and that the project has already been sanctioned. So, any comments on this one particularly?

John Evans ***- Subsea 7 SA - COO***

Okay, so as to your first question, the projects on that list which have options on a SURF SPS integration are. Mad Dog 2, Zinia and 98/2 are the projects where the clients have specifically asked for it. And Liza has an optionality question about the client being interested in that later on.

In terms of future bids and future awards, our policy is that we comment on them once they're secure and we disclose them to the market.

Jean Cahuzac ***- Subsea 7 SA - CEO***

I think we can take a last question. I'm sorry that we don't have enough time for everyone to ask a question on the call. But you can always call Isabel this afternoon if you still need some answers. So, if we go to the last question.

Anne Gjoen ***- Handelsbanken - Analyst***

Congratulations with a very good fourth quarter and the decision about the dividend. My question is that you comment that you see some indication for increased project sanctions.

The question is if you're referring to the project list or if you could be somewhat more specific which signs you're observing, for example, now versus what you saw by Q3 release?

Jean Cahuzac ***- Subsea 7 SA - CEO***

I think this comment comes from a different point. The first thing is definitely the operators are putting on the table more projects than they used to do six months or nine months ago. It's driven by the fact that very little has been done for the last two years. There is a stable oil price. But also, that the cost of the project has significantly gone down and some of the initiatives that we took have helped that.

When you look at the different projects all around the world, we see that more or less everywhere. But very strong, probably in a stronger way, in countries like Norway and then North Africa, East Africa, a number of projects in Gulf of Mexico, smaller projects.

So, I think it's, as we said in our general comment, we foresee more projects coming to sanction in the next 12 months, unless something happens with the oil price or whatever. But there are some encouraging signs.

I want to stress what I said my introduction. We foresee the improvement of the market as a gradual improvement. We don't see a sharp improvement overnight. That's why we need to remain prudent and continue what we are doing in terms of cost focus and all the initiatives that we've taken.

I think that concludes our call today. I would like to thank you all for joining. We have delivered a very good performance in 2016, when you take into account that it's been a very challenging market environment. Probably as important, we have taken steps to position our business for the long term.

As we look forward to 2017, we will look to build on these trends and maintain our track record of delivery in the future.

Thank you for participating to the call. I'm looking forward to speaking to you at the next one.