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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
Thank you very much and welcome, everyone, to our third quarter 2017 results 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. And with that, I shall now hand the call over to Jean.

Jean Cahuzac
Thank you, Isabel, and good afternoon and welcome to our third quarter results conference call. In a moment, I will summarise our key operational and financial results, and then Ricardo will review our financial performance in more detail. I will then conclude the call with a review of the progress we are making on our strategy and differentiated client service. As usual, there will be time to take your questions at the end of the call.

Starting on slide 4 of the presentation. We have achieved another quarter of strong execution and continued cost discipline in all three of our business units, and this was reflected in our Group results. Our revenue of $1.1 billion was 15% higher than the same period last year, driven by renewables activity; in particular, the Beatrice wind farm project. Our adjusted EBITDA of $250 million was lower than the prior-year period, as our mix of work has begun to reflect the more price-competitive projects awarded in the downturn. Utilisation of our active fleet was 78%, in line with the level reported in the second quarter this year, but well below the utilisation achieved a year ago. Total vessel utilisation was 69%. Our third quarter order intake included $538 million of new awards and escalations, taking our backlog to $5.3 billion. We have seen some improvements in the volume of tenders; however, pricing is competitive, particularly for near-term work.

Our financial and liquidity position remains strong. At the end of September, we had net cash of almost $900 million and undrawn credit facilities of approximately $650 million. Our first priority for cash is to strengthen and grow our business. In the third quarter, we ordered a new-build reel-lay vessel to increase our capability for long tie-back SURF projects. And we strengthened our presence in renewables and commercial markets, with integration of Seaway Heavy Lifting and EMAS Chiyoda Subsea, which were acquired in the first half of this year.

Turning to slide 5, we have illustrated some of the projects that have contributed to our performance. Offshore Egypt, we made good progress on the West Nile Delta Phase Two project for BP. In the third quarter, we completed the shore approach installation of three pipelines. The shallow-water iteration was carried out using *Seven Antares*, and followed months of engineering and preparation.

Offshore Norway, we have completed tying and pre-commissioning campaigns on the Maria project for Wintershall. This project, which is due to complete shortly, has been a showcase of how Subsea 7 can help to deliver the projects ahead of time. Close collaboration between Wintershall and Subsea 7 has been key to the successful completion of the scope. The project has demonstrated the efficiency of utilising the diversity of the fleet, including our new heavy construction vessel *Seven Arctic*.

Also in the North Sea, the Western Isles project for Dana was substantially completed. This project was awarded in 2012, but with a significant portion of the scope delayed to 2017 due to the timing of the FPSO arrival. Since 2012, we have designed and fabricated two pipeline bundles, managed the design and fabrication of two mid-water arches, and installed 11 risers.

The OCTP SURF project offshore Ghana was assumed by Subsea 7 as part of the ECS acquisition in the second quarter. It's progressing well, with offshore installation using *Lewek Constellation*, a reel-lay vessel previously owned by ECS and working on a short-term charter for Subsea 7.

In the US Gulf of Mexico, we have been moving ahead with engineering and procurement for the Mad Dog 2 project for BP. This project is being executed by Subsea Integration Alliance, our global and exclusive partnership with OneSubsea/Schlumberger. By working in collaboration on the SURF and SPS scope, we were able to combine our engineering and design expertise to reduce the risk and lower the cost of the project for our clients. The offshore scope is scheduled for 2019 and 2020.

Our PLSVs working on long-term day-rate contracts for Petrobras offshore Brazil have had another quarter of high utilisation. *Seven Waves* restarted work in July. At present, we have seven PLSVs working for Petrobras: four new-build vessels with contracts that will last until 2021 and 2022 and three lower top-tension vessels with contracts that mature next year.

Offshore Australia, our i-Tech Services business reached the final stage of the EPRS, Emergency Pipeline Repair System, project. The system is ready to deploy solutions involving several technologies developed by i-Tech Services that enable an expedient permanent repair to different types of pipeline damage, minimising production shutdown for the operator.

In Renewables and Heavy Lifting, the Beatrice project made good progress. All 84 sets of four piles have been fabricated, and by quarter end, 78 sets had been installed. During August and September, the heavy-lift vessel, *Oleg Strashnov*, installed the first 24 steel foundation jackets. This is Subsea 7's largest ever project in the North Sea, and our largest ever project in Renewables.

Turning to slide 6, and the reported backlog of $5.3 billion at the end of September. During the third quarter, we were awarded $538 million of new awards and escalations. We announced the award of $250 million relating to the extension of three long-term day-rate contracts for PLSVs, offshore Brazil. This took our PLSV backlog to $1.5 billion at quarter end. Over 90% of this sits with the four higher-specification vessels that joined our fleet since 2014.

On the last day of the quarter, the Fortuna project was awarded by Ophir to Subsea Integration Alliance. Our alliance with OneSubsea Schlumberger enabled us to offer the client a fully integrated solution, benefiting from our combined expertise and technology. This project is substantial in size at between $150–300 million for the combined SPS and SURF scope. But only the expected Subsea 7 share of the revenue was reported in our backlog.

Unannounced projects included smaller SURF awards in the North Sea and US Gulf of Mexico, various awards for i-Tech Services and the substation installation award for Renewables and Heavy Lifting. I will now hand over to Ricardo to cover our financial performance in more detail.

Ricardo Rosa

I will begin on slide 7 with the key highlights from our income statement. Third quarter revenue of US$1.063 billion was up 15% from the prior-year period, as the increase in revenue from our Renewables business more than offset the declines in our revenues from SURF and i-Tech Services. Net operating income for the quarter was $149 million. This included $13 million share of net losses from associates and joint ventures, partly due to the impairment recognised within our SapuraAcergy joint venture. The tax charge for the quarter was $12 million, implying an effective tax rate of just 9% for the quarter. This relatively low rate reflected revisions to the full-year forecast effective tax rate, based on the mix of jurisdictions where we expect our profits to be generated. Net income was $111 million, which gave rise to diluted earnings per share of $0.34, 23% lower than for the prior-year period.

Slide 8 illustrates our quarterly adjusted EBITDA margin in recent years. Our good execution on projects awarded prior to the downturn, and our early action on costs, resulted in a period of exceptionally high adjusted EBITDA margin performance from the third quarter 2015 to the second quarter 2017. We've continued to execute well and control our costs. However, the mix of projects we have today reflects a more competitive tendering environment. The cost reduction measures we implemented in 2015 and 2016 benefited our profitability as we executed lump-sum projects that were awarded in earlier in the cycle. However, more recent awards and tenders reflect our lower cost base in the price, lowering the cost of the project for the client. As the effects of the downturn continue, our near-term margin is expected to deteriorate further due to lower activity and continued competitive pressure on new awards. This is indicated directionally by the red arrow on this slide. In the medium term, as activity increases, we expect our margin to recover to historical levels. Our third quarter adjusted EBITDA margin of 24% is lower than any of the last eight quarters, but still is above the average achieved prior to that period.

Slide 9 shows the revenue and net operating income by business unit. Our SURF and Conventional business unit generated revenue of $755 million and $103 million of net operating income, down 6% and 52% respectively on the prior-year period. The substantial decrease in net operating income compared to the prior year reflected fewer large projects in the final stages of completion, resulting in less opportunity to enhance profitability through project de-risking and recognising additional income from final settlements and closeouts. Net operating income also included an $11 million non-cash loss recorded in the SapuraAcergy joint venture. This loss resulted from the recognition of an impairment associated with the sale of the pipelay and heavy lift vessel, the Sapura 3000, by the joint venture shortly after the third quarter close.

Our i-Tech Services business unit produced $76 million revenue, and $6 million in net operating income. Lower activity levels compared to the prior-year period were due to the decline in active rigs and less preventive maintenance by clients, partly mitigated by cost discipline. We have continued to reduce the number of chartered life-of-field vessels to more closely align our capacity with market demand.

Renewables and Heavy Lifting revenue was $232 million, mostly related to the Beatrice project, which progressed well with pile and jacket installation in the quarter. Net operating income was $45 million. Year-on-year performance reflects the consolidation of Seaway Heavy Lifting, which was equity accounted for in 2016 prior to the acquisition of the remaining 50% interest in March 2017.

I now turn to slide 10, which provides an overview of cash movements in the quarter. Cash and equivalents were $1.5 billion at the end of September, an increase of $50 million on the position at the end of June. We repaid $28 million of debt as we spent $23 million in the quarter on convertible bond repurchases, in addition to paying a $5 million scheduled instalment of the ECA loan. Capital expenditure of $54 million including the initial investment in our new-build reel-lay vessel. We received a $30 million dividend in the quarter from SapuraAcergy. This joint venture is discontinued, and in the process of being dissolved. We reported working-capital-related outflows of $94 million in the quarter, with a decrease in our net operating liabilities. This resulted largely from the timing of cash flows on the Beatrice project as the fabrication phase progressed, as well as increased activity in the Middle East following our acquisition out of Chapter 11 of former ECS businesses. Our financial and liquidity positions remain strong. At the end of September, we had net cash of $877 million and a further $656 million of undrawn committed credit facilities.

I move now to slide 11. It's been four months since we acquired EMAS Chiyoda Subsea, or ECS, from Chapter 11. In that time, we have started work on the projects that were already in the ECS backlog, and so far they have progressed as expected. We are in the process of integrating the 1,000 people approximately that have joined us from ECS, helping to align them with our values and processes. We've integrated *Lewek Champion* into our fleet. We have it on a long-term charter for conventional work in the Middle East, and are in the process of renaming it the *Seven Champion*. We have a short-term charter in place for *Lewek Constellation*, which is working on the OCTP SURF and TVEX projects, and we will return this vessel to its owner early next year. Organisationally, we have combined our new Middle East operations with our existing Asia Pacific business, and these are now being managed as a single region within the SURF and Conventional segment.

Turning to slide 12, we have reported three significant events since the end of the third quarter. Firstly, our $700 million 1% convertible bond matured. We had already repurchased $342 million of the bonds and these were cancelled at maturity. The outstanding $358 million bonds were repaid on 5th October, utilising our available cash. This had no impact on our net cash position, and our credit facility remains undrawn.

Secondly, as previously highlighted, we announced an agreement to discontinue our SapuraAcergy joint venture. The vessel owned by this joint venture, the *Sapura 3000*, was sold to Sapura Energy, our joint venture partner. As a result of the discontinuation and the sale of the vessel, we have received a total of $100 million in dividends from the joint venture. We remain committed to maintaining our presence in Asia Pacific, and the discontinuation of this joint venture does not impact our ability to offer a full range of services in this region.

Thirdly, we have acquired for nominal consideration the remaining shares in our Normand Oceanic joint venture. This transaction was completed on 31st October, and brings the heavy construction and flex-lay vessel, *Normand Oceanic*, into our fleet as a fully-owned asset. This joint venture had outstanding debt of approximately $100 million which has since been repaid by Subsea 7 from our available cash reserves. The vessel is currently on a long-term charter to a third party, and is generating positive cash flow for the Group.

Before I hand back to Jean, I would like to discuss our guidance, which is summarised on slide 13. For 2017, we continue to expect revenue to be higher than levels reported last year, and adjusted EBITDA margin to be lower than last year's record level. Administrative expense guidance is expected to be between $230 million and $240 million. We have lowered our net finance cost guidance, expecting it to be between nil and $5 million. Our expected range for depreciation and amortisation has been narrowed, and is now between $410 million and $420 million. As I mentioned earlier, we have lowered our full-year effective tax rate due to the change in geographic mix of our sources of income. We now expect it to fall in the range of 25–28%, three percentage points lower than previously guided. Our CapEx guidance for the year has increased to include the initial expenditure in the new reel-lay vessel. We now guide between $180 million and $200 million for the full year.

We have $2.6 billion of work in our backlog for execution in 2018. We expect to add new projects as awards to market increase. However, most of the revenue from projects awarded in 2018 will be recognised in later years, once the offshore phases commence. For this reason, we expect our revenue in 2018 to be broadly in line with our forecast revenue for 2017. As our mix of projects changes, we expect our percentage margin to fall. Furthermore, awards being tended for near-term execution are particularly impacted by the competitive market conditions. As a result, we are guiding that our 2018 adjusted EBITDA percentage margin will decrease significantly compared to 2017. I'll now pass you back to Jean.

Jean Cahuzac

Thank you, Ricardo. Turning now to slide 14. Our strategy is founded on providing a differentiated service and working with our clients as a long-term partner for the creation, development, maintenance and eventually decommissioning of their asset. We are differentiated by our skilled and experienced people, our innovation and technology, and our diverse fleet of vessels. These trends are complemented by our alliances and partnerships, and our local presence in all the major offshore markets. We are helping to transform our industry with integrated solutions and new technology that deliver the step change in cost and productivity. We have invested in our capability and aligned capacity to meet our clients' need and executed well. This has helped us to win work, as well as make better returns on the projects that we were awarded before the oil price declined.

Moving to slide 15, skilled and experienced people are central to our ability to deliver the services our clients need. Between 2014 and 2016, we reduced the size of our workforce by approximately 40% as we aligned our capacity to market conditions while protecting our capability. This year, we have grown our presence in the Renewables and Conventional markets, with the consolidation of Seaway Heavy Lifting and the acquisition of EMAS Chiyoda Subsea. These additions have broadened our scope of work, brought in new areas of expertise and added over $1 billion of work to our backlog. We have integrated approximately 1,500 people from these businesses. Their expertise and local experience complements Subsea 7's capability. We are committed to retaining the new ways of working established over the last two years. This means our workforce will remain the right size for the market, and we will continue to operate efficiently.

Slide 16 shows four of our latest key technology areas as displayed for our clients, employees and investors, at our technology and innovation week in Sutton last month: long-distance tie-backs; pipeline bundles and towed production systems; pipeline materials; and inspection, repair and maintenance. We have concentrated our investment in technology that enables offshore activity at lower cost and with increased efficiency.

Long distance tie-backs enable marginal fields to be developed without the expense of adding new production facilities. In the medium term, we expect approximately 20% of the projects to use this enabling technology, including a number of current tenders in the North Sea.

Subsea 7 has installed over 80 pipeline bundles. The same patented controlled towed installation method that we use for bundles can be used to install large subsea structures. Many recent projects have been based on our cost-effective bundle solutions, including Western Isles, Catcher, Callater and Montrose.

We are working to develop and commercialise new cost-effective pipeline materials for use in offshore oil and gas fields. For example, higher-strength steel can reduce pipeline weight and cost; corrosion-resistant alloys and polymer linings are cost-effective anticorrosion solution; and in the future, composite pipe could be used to overcome cost limitation in ultra-deep and highly corrosive developments.

Cost effective production is not just about the capital investment of a development. Increasingly, our clients are looking at the total field cost, or totex. Our i-Tech services business is developing better data management system to enhance our life-of-field solutions. All of these technologies benefit from earlier client engagement and front-end engineering, which we can offer through KG7, our earlier engineering alliance with KBR and Granherne.

Turning to slide 17. As our technology evolves and the needs of the market change, we align our fleet to match. In September, we announced our plans to invest a new rigid reel-lay vessel. This vessel has been designed for cost-effective installation of long-distance tie-back, and in particular more complex pipe-in-pipe and heated pipes solution. It is now under construction and is expected to be delivered in 2020, in time for the projected increase in offshore activity. The cost of the vessel will be less than $300 million, excluding capitalised financing cost. At the end of the quarter, we had 31 vessels in our active fleet. We returned two chartered life-of-field vessels to their owners at the end of their contracted terms. There was no change to the status of our four stacked vessels.

Moving to slide 18. Collaboration is a core value at Subsea 7 and, in some cases; this has developed into preferred supplier relationships, creating significant value for us and our clients. We have a unique integrated common incentive model with Aker BP. The first project to be executed under this model, the Volund Infill project, was completed in the third quarter. By working collaboratively on this project, we saved approximately 30% on project management and engineering hours. And overall, the project was completed 40% faster compared to similar projects executed with a more traditional contracting model.

Our alliance with OneSubsea Schlumberger, Subsea Integration Alliance, on slide 19, is another example of collaboration that is changing the traditional contracting and execution model. We are working successfully together on several projects to deliver faster, better and cheaper outcomes for our clients. By integrating SPS and SURF at an early stage, projects can be engineered to achieve enhanced production at a lower cost. This could be as a result of optimised field architecture, or simply choosing solutions that are more cost-effective to install and maintain. By combining schedules and sharing critical data, we can eliminate certain risks, minimise contingency overlap and shorten the time to first oil.

To conclude, on slide 20, the outlook for our market remains challenging in short term. We believe Subsea 7 is relatively well placed, with our backlog for firm work covering approximately two thirds of 2018 consensus expectation and a strong financial and liquidity position. Our strategy as differentiated service, partnership and alliance give us confidence that we will win our fair share of the available work.

In terms of new awards to market, we believe the worst of the downturn is now behind us, and that awards will increase gradually as we move through the first half of 2018. However, in most cases, newly awarded projects take 12 to 18 months in engineering and procurement phases before offshore activity, where most of the revenue and profit is recognised. We list here some of the active SURF project tenders that we expect to see awarded to the market in the near to medium term. The most active market today is Norway, where several clients are moving ahead with financial investment decisions and project sanctions. In particular, we foresee progress on Snorre, Skarfjell, Snadd, and Johan Castberg projects. Larger projects offshore Africa are likely to take more time, and the Golfinho, Mamba and Tortue projects listed here are not likely to be awarded before mid-2018. Other sizeable projects that the market is waiting for includes the first of the ultra-deep-water Libra project for Petrobras, and the second phase of the Gorgon gas project offshore Australia. We are tendering for several conventional projects in Saudi Arabia under the LTA with Saudi Aramco acquired as part of the ECS acquisition. We were unable to participate in new tenders while ECS was under Chapter 11, but we are quickly catching up on lost time.

i-Tech Services is seeing a gradual increase in tendering activity in the North Sea, US Gulf of Mexico and Asia. In the Renewables and Heavy Lifting market, we continue to bid a number of foundation and substation installation projects in UK, Poland and Germany, and are tendering foundation opportunities in both US and Taiwan. Offshore renewable energy is an important area of growth for us, and we remain committed to strengthening our presence worldwide. I will now open the call for your questions.

Operator
Thank you. Ladies and gentlemen, if you do wish to ask a question please press 01 on your telephone keypad. If you want to withdraw the question again, you can do so by pressing 02 to cancel. Once again, that’s 01 on your telephone keypad to register for a question.

And we have our first question from the line of Michael Alsford from Citi. Please go ahead, your line is now open.

Michael Alsford
I have two questions please. Firstly, you’ve been pretty active around your fleet capabilities, as you mentioned in your prepared remarks. So, I just wondered whether you feel that you’re now comfortable with the vessel fleets that you have, or whether you might need to do more to try and align yourself to what you see as the market opportunity going forward.

Secondly on Renewables; you’ve clearly built that capability out this year, and I was just wondering whether you could talk a little more around what you think is the size of the market opportunity in terms of dollar millions or dollar billions, for example? That would be helpful, thank you.

Jean Cahuzac
Thank you. Regarding your first question on the fleet; yes, we are comfortable with the fleet, and comfortable that the fleet that we have will allow us to fulfil our needs in the foreseeable future, including new technology needs on the SURF market. The last commitment to this new-build project is a key step in the right direction for us to meet the additional requirement, both in terms of activity and new technology that we see in 2020, 2021.

Regarding the renewable market, we see this market as a growing market for a number of reasons, one being technology. We are seeing on the renewables side the technology playing a critical part in lowering the cost of the projects, in particular on the turbine side. And it’s not a coincidence if we start to see a number of projects which can be launched without subsidies from the various governments. So, we see growth there, and we are well positioned because of our project and engineering expertise, the fleet that we have for installation of foundations and the expertise of SHL in this business line, which has been in place for a number of years. So, I’m optimistic about the growth of this business in the years to come.

Fiona Maclean
I have two questions. Firstly, I was hoping to get some clarity around your language regarding your margins; you talk about margins declining next year. Now, you are in a slightly strange position where you’ve had incredibly high margins over the last couple of years, so could you maybe help define what we should be thinking about in terms of where you see normalised margins being?

My second question is, I would like to get a little bit more detail on your very specific outlook on the Middle East region, particularly after the transaction that you did earlier this year. I appreciate you gave some brief commentary in the remarks earlier, but any further detail would be great.

Jean Cahuzac
Yeah, I will take the first question on the margin, and ask John to answer specifically on the Middle East. The way we see the margin will be significantly lower in 2018 compared with 2017. There is no doubt there is pressure on projects which we are going to executing in the short term on the margin. We expect when the market picks up to go back to historical margins, and I believe that, in fact, exceed this historical margin because of our differentiators with technology and the alliance and everything else on the longer term. Ricardo will be more specific.

Ricardo Rosa
No, I think, Jean, you've pretty much summarised it. I understand the need for clarity on normalised; I think perhaps the better term that Jean has used is 'historical margins', is a good reference point, and that is what we've highlighted in our slides. I think as Jean has said, we are seeing significant pricing pressure at the moment as we move through the trough period of this cycle, and there is excess capacity in the SURF sector at present. But we remain confident that there will be growth in activity thereafter, as indicated by the level of tendering that we are seeing at present. And as the excess capacity in the SURF sector is consumed, we would expect the return of margins to historical levels or better, as Jean has said.

John Evans
Yes, as we mentioned in Jean's presentation, we have been given the opportunity to bid for the work under the LTA agreement in Saudi since the ECS acquisition, and we have put a number of offers in, in the last few months. They are a mixture of different types of work, between pipelines, jacket installation, top-side installation; varying size from small to reasonably large projects. So, we continue to bid those packages, and we'd expect to get a reasonable share of that work in due course. So, for us, we remain pleased with the acquisition. The timing of which awards get done is not always clear to everybody, but we feel that there is reasonable opportunity to believe that Saudi will continue to certainly invest in the coming years, and we are also seeing other opportunities in the Emirates and Qatar as well.

Fiona MacLean
Just a quick follow-up on the margin: so, looking at your historical, so basically a range between 15–20% would seem reasonable for EBITDA?

Jean Cahuzac
Well, we cannot comment on the timing of the margins recovery. I would say historically, north of 20% was more what I was referring to on the medium to long term.

Robert Pulleyn
If I can follow on from the last question: I understand the medium-to-long-term margin commentary you're giving there, but can we just delve a little bit more into the word 'significantly' for near-term margins as we go into 2018? So, 12 months ago, you guided 2017 margins to be down significantly year over year, and it looks like they are going to come in 450–500 basis points lower. Is that what you would consider significant in terms of where we should put 2018? As a reference, I think consensus has a 700-basis-point margin contraction. So, you are guiding margins up or down for 2018?

Secondly, shifting gears, could I also ask about working capital to Ricardo? You are on the verge of a positive working capital position for the first time in a while; how will this look in 2018?

And then finally, could you give a little bit of colour as to what gives you confidence around this 2018 revenue guidance? There's a $1.4 billion difference between your backlog currently for 2018 and where guidance is, and are those projects somewhat oil-price-dependent or not?

Jean Cahuzac
So, if I start with the revenue and the 2018, we expect the revenue to be in line with 2017. It's based on a number of things: it's based on the tender activity that we see, it's based on the fact that when we look at the projects, we see today that with our lower cost base than a few years ago, and our technologies that we can bring, we believe that we will win our share of the market, or more than our share at the market. And that's the reason that we made this statement on the revenue. We don't expect a change to absolute values for 2018 versus consensus EBITDA, even after this revenue upgrade, and that reflects lower margin that we foresee in 2018 and 2017.

We expect the revenue to be as per our earning call's statement in 2018. In that context, we don't expect a change to absolute 2018 consensus EBITDA even after revenue upgrades, which give you a kind of indication of the deterioration of margin that we foresee in 2018. That's for short term. When we talk about bidding jobs which we believe will be executed medium term, when we see a gradual recovery of the industry, we see a gradual improvement of these margins over time. And I was referring to historical values before; that's our reference point.

Ricardo Rosa
And picking up on the questions around net working capital, I mean, you're right, we have had a significant unwinding of our net operating liability position in 2017, and it was something that we had guided our investors to for a while. And really, if you look at it, the readjustment has largely taken place in the first half of this year, where our net operating liability position reduced by $465 million, and this was driven largely by the completion of various large projects and associated recognition of deferred revenues and evaluation of contingencies. In Q3, we did have a further reduction of our position, of our net operating liability position, by about $95 million. But this was significantly impacted by the timing of cash flows related to the Beatrice project and the ramp-up of activity in the Middle East. So, we are not expecting, going forward, these significant reversals that we've seen so far this year. And I would say that that is our expectation for the course of 2018.

Maria-Laura Adurno
The first question that I have is maybe if you could provide us a bit of a reminder with respect to the PLSVs that you have, where the contracts are expiring in 2018 and where you stand in terms of any type of negotiation to extend those?

The second question I have: given the strength of your balance sheet and net cash position, and the fact that this year, to a certain extent, you've acquired a bit of backlog, what are your thoughts around that? Are you looking to acquire any other businesses, and if so, which areas? That would be the first two questions I have, thanks.

Jean Cahuzac
I will answer to the second question first, and then John will cover the PLSVs. Our strategy is to use our balance sheet for investment for growth, if there are identified opportunities which would deliver superior return for the shareholders. So, we're always looking at opportunities as part of our overall strategy in SURF, i-Tech Services and Renewable and Heavy Lifting. I mentioned before that as far as the fleet is concerned, we are comfortable with where we are. Regarding the opportunities, very difficult to say what will materialise on not. So, future will tell.

John Evans
On the PLSVs, as we mentioned, we have four 550-tonne new asset class PLSVs under contract for a significant number of years. We have three, though, coming to a close on their existing contracts next year. The Petrobras system is very transparent: they go publicly bidding for extensions and suchlike, and they do not show any intention to come to the market for further needs for those, although we may get some short-term, one- or two-month extensions, as historically happens sometimes on the conclusion of existing contracts.

Maria-Laura Adurno
This is very clear. And just one last question: you've been extremely aggressive at reducing your costs, and you're now mentioning near-term challenges with respect to pricing. I was just wondering whether on your side, there is additional cost that can be squeezed out.

Jean Cahuzac
I think we have reduced significantly our internal cost while maintaining capability. Mainly people look at headcount reduction, but sometimes underestimate what working in a different way and what efficiency can bring to actually lower not only the internal costs and the project costs. So, we really believe that lower cost of the projects will get even more momentum with the initiatives that we've taken, with early engagement and different allowance. That's where we see the differentiator to help the industry to lower the costs further on the projects.

Kévin Roger
My first question is related to the margin that you discussed in the beginning. One of your peers recently stated that 2018 should mark the lower point in terms of revenue, and both in terms of margin. So, I was wondering if we can assume the same statement for Subsea 7, if you had the same view for 2019.

And also, second one is related to the R-Series project. You are bidding with TechnipFMC on an integrated basis on this project, but McDermott finally won this contract. I was wondering: in your view, what are the key elements that you missed on this project?

Jean Cahuzac
Regarding the momentum that we see on the integrated approach for the projects as a way to lower the cost of the project and find different way of working, I think recent experience and what we foresee today every day makes me believe there is no doubt that it's a step change in what's happening in the industry. Reliance was not an integrated project; we built it in consortium with Technip, as do sometimes when this brings more flexibility on the assets and for the client. So, we were not on an SPS SURF integrated offer on Reliance, it's not the option that the client had chosen. McDermott won the projects; I will let them answer on why they think they won it. That includes, obviously, pricing, which Reliance looked at. It may relate to operational risk and different things. But I cannot comment really on what the competition is doing.

Kévin Roger
Regarding the statements for 2019 compared to 2018 that one of your peers recently made?

Jean Cahuzac
I think it's too early to be very specific on 2019. I mean, as you know, there is still some question on the timing of some project awards. One positive side is what we've seen on the price of oil, which would be encouraging for the longer term. But I would never – I cannot comment on 2019, it's too early.

Nick Green
Can I just come back on the PLSVs please? John, you mentioned three come to the close next year; can you just confirm, then – I thought the Condor was maybe coming to the close in the end of Q3 this year, so has that been extended or was it slightly delayed? If it wasn't the Condor, could you confirm the three vessels, please?

John Evans
Yeah, the two triple-lays come to a close, which is the Condor and K3 next year, and we also conclude the Phoenix contract as well.

Nick Green
And the Condor, has that been extended then? Because that was due originally to close in end of Q3 2017, I think.

John Evans
No, she works into 2018 for us at the moment.

Jean Cahuzac
Which was the initial contract; I mean, there is no change there and the contract is going on.

John Evans
As you know, there were extensions given to us in the last quarter through the backlog we picked up with Petrobras, but that was all extensions to the large 550-tonne-class asset base.

Jean Cahuzac
Sorry, if I may add one point on the PLSVs: one thing we said in our script is that at the end of the quarter, we had $1.5 billion backlog, and that over 90% of this backlog comes with the four highest specific vessels which are really what matter.

Nick Green
Just a general question on, I guess, sales for the future and your comments, Jean, about feeling comfortable taking your fair share of work. Across the sector, you guys I think have probably the lowest rolling-12-month book-to-bill at the movement, probably caused by having quite good sales from work won in the last year or so. But it does seem on those kinds of metrics that maybe you're not taking your fair share of work. Could you give any comments on why you're comfortable you will still be taking a fair share of whatever work is available next year?

Jean Cahuzac
Yes, I think firstly, it's difficult to evaluate what is the market share on one or two quarters. But what we are seeing today is that the industry is moving towards more technology, more early engagement on the engineering side, clearly a very big momentum on the alliance side with the SPS and SURF. And we see this market starting to pick up first in the North Sea, which is a short-term activity, where we are very well placed from a competition perspective. So, when I put all that together, I come to the conclusion that I'm comfortable with where we are going.

Nick Green
Just a final question; back to the margins, talking about recovering to historical trends or to historical levels. If we did a longer historical, we did a 2005 to current level; you are closer to 13–14% margins. You go back to the beginning of 2000, which I guess includes the last down cycle, its lower again. If you do the last five years, it's about 19–20%. So, just to be clear on what you're roughly guiding to, are you viewing historical as more like the last five years, or are you open to the idea that it could be a ten-year average historical?

Jean Cahuzac
I was referring to the good time of the historical side in the years to come in medium and long term. And when I was referring to margins, I really believe that the differentiators of Subsea 7 will allow us to improve this margin, because of the early enrolment, because of the technology, because of our alliance with OneSubsea/Schlumberger.

Anne Gjøen
I have two questions, if I may. First one, are there some areas where you find it interesting to broaden your scope, particularly within Renewables?

And the second one: when it comes to these wind farm tenders, is it possible to indicate how sizeable they are, name some of them, or have you seen some new in the third quarter?

John Evans
I think the renewables is a market where today, we have a very strong position through our SHL business in installing substations, and also we have a strong position in jacket and monopile foundations. And as Jean mentioned earlier, the sizes of the turbines are getting bigger, which means larger foundations,

which means the SHL asset base is the right capability for that. As we're seeing on Beatrice, we also have about 180 kilometres of inter-array cables to install, so that's an adjacent part of the market that's also of interest and sometimes becomes part of our scope. And finally, then, the actual turbine installation is something that we don't do today, but we also have in our minds that we need to understand strategically where we go with the turbine installation activities.

In terms of bids at the moment, we are bidding a number of substations in Europe. There will be some in Holland coming to the market soon. In terms of the larger EPIC, we're going to see the UK project called Neart na Gaoithe, which is quite an interesting Gaelic name, coming out in Scotland, and that would be a project for installation in 2020. That will be out on the market for bidding reasonably soon. We're also preparing ourselves for the Le Tréport projects in France, which will also be out for bidding for the first packages of the French EPIC market coming there. We are presently tendering some work in Taiwan, which is the first packages of work to come out in Taiwan, and also the Vineyard project in the US is also a project which will be on the market in the near term. So, we are seeing what is traditionally a very European-based and successful-based renewable industry, starting to spread its wings in a limited way. We're starting to see the French market pick up. So, for us, we remain very focused and very interested in that market, and we remain very open-minded as to what capability we need to have in-house and what capability we will purchase from the market.

Frederik Lunde
Just a couple of questions. Firstly, on the Normand Oceanic, could you just clarify if any of the debt was on your balance sheet before the acquisition: 50%, 100% or nothing?

Ricardo Rosa
This was a non-consolidated joint venture, so none of the debt was on our balance sheet.

Frederik Lunde
And in terms of dividends, is it fair to assume that an improving market should warrant a dividend also next spring? I know it's up to the board, but I'm sure you have some opinions on that.

Ricardo Rosa
Frederik, I think you're quite familiar with the processes of Subsea 7. Our board evaluates the options for returning cash to shareholders regularly, and we intend to file a review on that towards the end of this year, and in the light of results for 2017 in this instance. So, we'll be providing more clarity next year on our intentions there.

Frederik Lunde
I've been quick, so I will take the chance of one more question: on M&A, do you see benefits from closer integration, meaning joint ownership, which you don't have today?

Jean Cahuzac
You are referring to the vessels?

Frederik Lunde
No, I'm thinking of integrated offerings, SPS and SURF. Can you take out all the synergies from the current alliance, or would it have even more synergy potential if you had joint ownership?

Jean Cahuzac
We're quite pleased with the way the alliance works today. We are working every day on strengthening this alliance and finding better ways of working, and we have more and more collaboration by the teams on the two sides. I think, overall, it works very well. Always ready of ideas of how to improve it further, but I see more and more momentum. And the comments I made on differentiation previously relate to a large extent on what we are seeing today, with the OneSubsea/Schlumberger alliance.

James Thompson
Great, thank you very much for taking my questions. Just a quick one on the short-term market, really. Referring back to the question on the revenue bridge into 2018, I was just interested to know: we've seen oil prices strengthen pretty materially through the third quarter and into the fourth quarter, so I was interested to get an idea about how you see the spot market and the shorter-term charter market developing in the fourth quarter, and whether that's a significant component going forward of your revenue bridge into 2018? Because if I look back through Q1 to now, you added about $800 million of backlog for revenues for 2018, but you've still got $1.4 billion to go. Clearly, some of that might be a Saudi LTA, but I'm struggling to bridge that gap. So, just some insight on the short-term market and that revenue bridge would be very helpful. Thank you.

Jean Cahuzac
Yes, the tender and execution of the project depends obviously on the type of project, between life-of-field and SURF, and also where it happens, the commercial model; North Sea, etc. I would like John to give a bit colour on how we see this market evolution, and why we made our comment about 2018 on the revenue.

John Evans
I think regarding the revenue, as we mentioned earlier, we are seeing a lot of interest in the North Sea, there is lot of tendering in the North Sea. We're doing a large number of studies. There remains a lot of interest in our bundle opportunity, and bundles upon award bring revenue quite quickly into our system, because we're manufacturing those the year before installation. As we stand here today, we have four diving ships still working in mid-November here, in the North Sea, which shows again that operators in the North Sea can move very quickly, either to get their life-of-field work done or some incremental CapEx done as well. As you mentioned, we do see that we will get a reasonable fillip of work in the Middle East as well next year to build up the revenue bridge.

So, for ourselves, the level of interest in the North Sea, our historical strength in the North Sea, the number of studies we are seeing, gives us a good insight that we believe we'll be able to pick that up, as well as the Middle East, are the two prime drivers for us in making our views on the revenue.

James Thompson
Following up on a couple of earlier questions; I just wanted to understand how important the PLSV renewal is to margin recovery in the medium term?

John Evans
Jean said 90% of our backlog is on the four large 550-class, and they don't get renewed till 2021, 2022 period. So, the renewals of those won't come to market, we don't believe, for two or three more years.

Morten Nystrøm
A lot of the questions I had have been asked, but I just want to follow up on the dynamics with respect to the integrated contracts. For us looking into this industry, it seems clearly – I think you also mentioned it – that this is getting more and more momentum, basically for each month. On the back of that, do you see any negative aspects of being in an alliance compared to a fully integrated company such as TechnipFMC? Do you get any comments from clients regarding that?

Jean Cahuzac
I have not had one negative comment regarding our model versus TechnipFMC. When the way you actually manage an alliance compared with an integrated company, obviously you have pros and cons. I would say, overall, I'm very comfortable with the way we work, and I'm more than comfortable with what Schlumberger brings on the table, which is also part of the down-hole and flow-assurance and everything else, which some of our competitors do not have. So overall, it's positive.

Haakon Amundsen
I just had a question on your cost base. You're adding some headcount from the acquisitions, so I wondered if you could quantify how much your fixed cost base is growing into 2018?

And also, if you could give some colour on the level of procurement in 2018 relative to 2017 please?

Ricardo Rosa
In terms of the cost base, I'm not going to give you specific guidance at this stage, but essentially we have, obviously, incorporated additional resources, both on the SHL side and through the acquisition of the remains of the ECS business. But these are activities that are incremental to what we had before, and we will be looking over time and through 2018 to seeing what sort of synergies we can achieve as a result of these acquisitions that we have made. I do want to emphasise too that the quality of personnel that we have incorporated into Subsea 7 is very high. And certainly, in the case of the Middle East where we had no presence, we are relying on the resources that ECS brings there.

As far as procurement is concerned, I think we highlighted that 2017 would be relatively high in procurement proportion versus 2016, because of the impact of Beatrice in particular on the renewable side. Going forward in 2018, I think you're safe to assume that we will be returning to our historical levels, which I think we've guided in the past to somewhere between 35–45%.

Jean Cahuzac
I think we must now draw to a close. I would like to thank everybody for participating in this Q3 earning call. And if you have any follow-up questions, please contact Isabel, our Investor Relations Director. Thank you again, and looking forward to talking to you in different visits or at the next earning call. Thank you.