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Speakers:

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

Isabel Green

Welcome everyone to our second quarter 2018 results conference call. With me on the call today are Jean Cahuzac, our Chief Executive Officer, Ricardo Rosa, our Chief Financial Officer; and John Evans our Chief Operating Officer. The results press release is available to download on our website, along with the presentation slides that we'll be referring to on today's call.

Turning to slide 2, I must remind you that this call may include forward-looking statements that reflect our current views and are subject to risks, uncertainties and assumptions. Similar wording is also included in our press release.

It's a busy day to results today, so we'll be keeping this call strictly to an hour time limit. We will have time for Q&A at the end. And if you can keep your questions succinct, then everyone should get a turn. However, if you miss out, please contact me directly with your questions after the call. I'll now turn the call over to Jean.

Jean Cahuzac

Thank you, Isabel, and good afternoon, everyone, and welcome to our conference call today. I will begin with the quarter's highlights and then Ricardo will present our financial results in more detail. I will conclude with an update on our strategic performance and our latest view of the outlook.

Starting on slide 4. We reported revenue of $1.2 billion, 13% higher than in the prior year period, reflecting our expansion into the Middle East during 2017 and the gradual improvements in market activity. Our adjusted EBITDA was $186 million in the quarter, 45% lower than the prior year, resulting in a margin of 16%. Our earnings per share was $0.24.

Our strategy to invest in the business to strengthen our performance and diversify our income has been supported by our strong financial and liquidity position. We completed the acquisition of Seaway Offshore Cables, or SOC, formerly called Siem Offshore Contractors, in April and paid $204 million special dividend in May. As of June 30, we had just over $600 million in cash and our net cash position was $343 million.

Our operational performance in the quarter was good and we progressed well on SURF and conventional project. We had lower levels of vessel activity in the renewables and i-Tech Services business units compared to the prior year period, with lower IRM and ROV services execution. The Beatrice wind farm project neared completion as per plan, and we expect to conclude on remaining commercial discussions in Q3.

We have seen the first cluster of awards coming to market with signs of market recovery underway. We announced seven new awards in the quarter, making this the third quarter in a row with better order intake. Book to bill was 1.2 and we increased our backlog to $5.4 billion. Our clients have been focusing on increasing production with tie-backs and incremental investment in existing fields. We have also seen a pickup in life of field activity with two long-term IRM contracts awards in the first half of the year.

While larger Greenfield project are taking longer to sanction that tie-back contracts, visibility on the signing of FID on this project is improving. This makes me confident that while big margins remain low for short cycle projects, we will see an improvement in the medium term when the volume of offshore activity increases.

Turning to slide 5, to look at some of our current projects and operations. We operate in all major geographies for offshore energy around the world. We are capable of working in all water depths and have an extensive network of local offices operational bases and fabrication yard. The West Nile Delta Phase 2 GFR project offshore Egypt progressed well with Seven Borealis laying pipe in S-lay and J-lay configuration, adapting to the changing water depths. This is a significant phase of the project and vessel Seven Pacific, Seven Seas, Seven Eagle and Simar Esperanca were also used in the most recent offshore campaign.

Offshore Norway, the Aasta Hansteen project completed marine operations with the tow-out and installation of the topside. This was a biggest tow-out of the Norwegian continental share for over 20 years, requiring five charters of vessel over a 500-nautical mile distance. The Utgard project, also offshore Norway, utilised the capability of Seven Arctic. The installation of the template plate was executed safely and as per plan, using the vessel 1,000 tonne crane and other technical capabilities. Since the delivery from the shipyard in

2017, Seven Arctic has played a key differentiating role for Subsea 7 with high utilisation and superior performance.

The Snorre project, which was signed at the end of last year, progressed well, with procurement and fabrication at our pipeline bundle facility in Scotland. This would be Subsea 7's 87th bundle project, showing the longstanding competitiveness as its innovative technologies.

In the Middle East, we also progressed well with the project awarded under the LTA with Saudi Aramco. On the 4 Decks project, shown here in the slide, we installed the top side and started installation of the umbilicals. Our PLSVs, working on long-term contract offshore Brazil, achieved high levels of utilisation in the quarter. We have five active PLSVs at present, having received a short extension to the contract of Seven Phoenix to continue work until mid-August. The remaining four contracts are not due to expire until late 2021 at the earliest.

Our life-of-field business has had also a good start to the year and we find a renewal with Equinor in the second quarter for work in the North Sea. Our strategy to expand our presence in targeted geographies have continued successfully. The long-term contract with BP in the Caspian was won in the first quarter. And in May, we added chartered vessel, MMA Pinnacle to our fleet for IRM activity offshore Australia and Asia. Offshore UK, the Beatrice Wind Farm project is nearing completion. 82 of the 84 foundation had been installed by the quarter end, and the remaining two were installed in July. The second cable-lay campaign is under way, using Seaway Aimery, and should be completed before year-end. We have started offshore installation of the Borkum II Wind Farm project offshore Germany.

Moving to slide 6. Our order backlog at the end of June was $5.4 billion, including the addition of $95 million from the acquisition of SOC cable lay business, and after an adverse foreign exchange movement of approximately $200 million. Our book to bill ratio was 1.2 with $1.3 billion of new awards and escalation booked in the quarter. At the end of June, we had $1.9 billion of work due to be executed in the second half of 2018 and $1.8 billion already in backlog for 2019.

Our reported backlog includes approximately $120 million related to the Fortuna project in Equatorial Guinea. This project has experienced a delay in FID. We are working closely with the clients as it seeks a solution, but cannot exclude that this contract could be cancelled. We announced seven new projects in the second quarter. The awards comprised of the Alligin and Penguins project offshore UK; the WDDM Phase 9b project offshore Egypt; the Vito project in the US Gulf of Mexico; the PUPP conventional project offshore Nigeria; the Zinia offshore project Angola; and the renewal of the long-term IRM contract offshore Norway. Our successful tendering reflect our focus on early engagement, cost-effective technology and reliable execution.

I shall now hand over to Ricardo to present our financial results in more details.

Ricardo Rosa
Thank you, Jean, and good afternoon, everyone. Let's first look at the income statement highlights on slide 7. Second quarter revenue of $1.2 billion was up 13% from the prior year period. This reflected increased activity in SURF and Conventional, mostly due to the execution of projects taken on with the ECS acquisition made at the end of the second quarter last year. Revenue from i-Tech Services and renewables and heavy lifting was lower year-on-year with reduced activity levels in both business units.

Adjusted EBITDA was $186 million compared to $340 million in the prior year period. Adjusted EBITDA margin of 16% was 17 percentage points lower than in the second quarter 2017. This reduction reflected continued pressure of the downturn in our activity levels and pricing, as well as the phasing of projects. Diluted earnings per share was $0.24 based on an average of 327 million shares in issue.

Turning to slide 8 to look at the income statement in more detail. Net operating income was $74 million, down from $235 million in the prior year period. Administrative expenses of $66 million reflected additional costs related to businesses acquired in 2017, as well as higher tendering costs as levels of bidding activity increased. We remain focused on integrating our new acquisitions and cost discipline in general, and expect administrative expenses to be lower in the second half of 2018. Associates and joint ventures contributed $3 million profit, mainly related to local joint ventures in Angola and Asia. The increase in depreciation and amortisation to $112 million resulted mainly from the changes to our fleet compared to last year.

There was no net finance charge in the quarter as income from cash deposits offset loan interest in the period, helped by capitalisation of interest expenses on the new build vessel. There was a $27 million gain from other gains and losses in the quarter. This was mostly due to the movements in US dollar exchange rates as it strengthened against our major currencies. In addition, it included a small gain from the disposal of Seven Condor which was sold for recycling earlier this year. The tax charge of $27 million was equivalent to an effective tax rate of 27%. Net income was $74 million, 49% lower year on year.

Slide 9 shows the revenue and net operating income by business unit. SURF and Conventional revenue of $842 million was up 37% on the prior year quarter, mostly due to the inclusion of conventional projects in the Middle East, following our acquisition of certain businesses of ECS in 2017. Excluding the acquired business, revenues were broadly in line year on year, as we started to see the positive impact of new awards offsetting the decline from the completion of projects awarded before the downturn.

Net operating income was $62 million, down from $163 million in the prior year period. We have fewer SURF projects in the final stages of completion, and those projects we are currently executing were awarded with lower margins. In addition, this is a reflection of our change in mix of activity, as conventional projects in the Middle East typically achieve lower margins than deepwater oil and gas projects in the other geographies.

i-Tech Services revenue was $61 million, 27% lower year on year. Net operating income was $4 million, compared to $11 million in the prior year period. Inspection, repair and maintenance utilisation and pricing was lower than the previous year period, as the downturn continued to impact activity levels. This decline was partly offset by the commencement of an attractive new contract in the Caspian Sea. The reduction in active drill rigs impacted our ROV services, contributing to the lower revenue and profitability in the quarter.

Renewables and heavy lifting revenue was $257 million. A significant proportion of it related to the Beatrice project which neared completion, with almost all the foundations installed by the end of the quarter. Renewables net operating income was $5 million. Activity levels were lower than in the prior year period, as the Beatrice project wound down and there was insufficient transport and installation activity to fill the gaps between scheduled offshore campaigns on the Beatrice and Borkum II projects.

Turning to slide 10. On 10th April, we completed the acquisition of Seaway Offshore Cables in a related-party transaction. The addition of cable lay capability has increased our offering in renewables and help to de-risk our EPCI services. We can now provide our clients with a full balance of plant service, meaning that we can do everything in a single contract except for installation of the wind turbine generators. The initial consideration of $164 million was paid in the second quarter. This included $117 million related to the two vessels and associated equipment.

Excluding contracts awarded to SOC by Subsea 7 subsidiaries, we added $95 million to our order backlog as a result of the transaction. We currently expect to pay a contingent consideration of approximately $30 million, based on the volume of contracted work up to 2024. This estimate will be regularly assessed in the light of changes to our projections of future activity. We recognised $70 million of goodwill, acknowledging the value of SOC's experienced people, track record of reliable execution and solid business relationship. Being a related-party transaction, the purchase consideration was structured after in depth analysis and was supported by independent third-party valuation.

Moving on to slide 11, which illustrates our cash movements in the quarter. Cash and equivalents was $614 million at the end of June. The reduction of $393 million, compared with the position at the end of March, reflected our commitment to invest in the group's business through this cycle and return cash to shareholders when appropriate. As shown on the slide, we invested $164 million in the acquisition of SOC. We paid a special dividend of NOK5 per share, resulting in cash outflow of $204 million.

Furthermore, we took advantage of a temporary drop in the share price and repurchased 675,000 shares for $9 million. We generated $42 million in net cash from operations in the quarter, despite a $139 million decrease in net operating liability. The change in the mix of our business through this cycle and the reduction in EPIC project activity has altered, to an extent, the profile of our balance sheet. This has resulted in an increased requirement for working capital, as reported in 2017 and the first half of 2018.

Revenue from our PLSV and i-Tech services activities is billed in arrears, as is our conventional activity in the Middle East and heavy lift T&I contracts. Conversely, large EPIC projects typically have a net liability position that diminishes as work is completed. However, first contract signed today tend to have less favourable payment terms than those awarded a few years ago, with lower advanced payment at signature and less attractive scheduling of milestone payments.

Although there will be continued volatility in our net operating liability position in the second half of 2018, we expect an improvement by year-end, driven in part by the successful completion of the Beatrice contract. We spent $46 million on capital expenditure in the quarter, mostly related to the new build Reel-lay vessel. We reached a major construction milestone in July when the keel was laid, and this has triggered a significant payment in the third quarter.

We can now share with you our name for this new vessel. Successful employee competition elicited many responses and we have chosen to name her Seven Vega, Vega being one of the brightest stars in the Northern hemisphere. At the end of June, we had a net cash position of $343 million, including borrowings of $271 million. Our $656 million revolving credit facility which matures in 2021 remained unutilised.

We do not disclose the target gearing but we are committed to maintaining an investment grade credit profile. Our strong financial and liquidity positions enable us to invest in the business through the cycle, creating long-term sustainable value for all our stakeholders. We have a track record for returning cash to shareholders, but will only do so when it does not impede our ability to invest in the business and maintain financial security.

Turning to slide 12, I will conclude with our guidance and how our expectations have evolved over the course of the quarter. Our guidance for 2018 revenue and adjusted EBITDA percentage margin is unchanged from the first quarter. And our view of the outcome for the year has not deteriorated in the period. Based on our firm backlog and results year to date, we are confident that we will achieve 2018 revenue broadly in line with the level reported in 2017. This includes a full year's contribution from the ECS acquisition, offset by lower expected revenues in renewables and heavy lifting as the Beatrice Wind Farm project reaches completion.

Our guidance for 2018 adjusted EBITDA percentage margin is that it will be significantly lower than the 26% we achieved in 2017. In the first half of 2018, our margin was 15%. We see potential for some improvement in the second half based on increased spot work and the successful completion of certain projects. It is too early to provide guidance for 2019, but many of the cyclical trends we are seeing this year are expected to persist. The $1.8 billion backlog already secured for 2019 covers just less than 50% of consensus expectations, which is lower than average at this point in the year, but similar to the level reported in 2011 when we were emerging from the last downturn.

We expect project pricing and margins to improve as the volume of activity continues to strengthen. But we do not expect to see the impact of this on our results before 2020.

Jean Cahuzac
Thank you, Ricardo. Turning now to slide 13. We aim to create sustainable value by supporting our clients across the whole lifecycle of the field. We have delivered on this in the second quarter by investing in cable lay capability to expand our renewables offering for comprehensive balance of plant services. We are developing our relationship with Schlumberger to evolve our subsea integration alliance into a joint venture agreement, offering full integrated projects and life-of-field services.

Our differentiated technology continue to drive better and more efficient solutions and our pipeline bundles are set for another busy year. Our investment in composite pipeline technology is expected to deliver significant cost and design advantage for our clients in the years to come. I would take each of these in turn and start with our strategy for renewables on slide 14.

Subsea 7 and SHL have been involved in the provision of transport and installation services for offshore wind farms since 2009. Our capability and experience enable us to deliver safe and reliable project execution. Over the last 10 years, we have installed hundreds of turbine foundations and lifted many jackets topside substation and subsea structures. Our recent investment in cable lay capability position us in a leading balance of plant service provider, able to offer holistic EPIC solution as well as transport and installation services.

We have a team over 1,000 experienced people and four specialist vessel for the renewable and heavy lifting markets. By growing our presence in renewables, we are enlarging our addressable market and adding structural growth. We are engaging in the energy transition and positioning ourself for a future where renewable energy sources are increasingly important for society. Our experience in renewables and heavy lifting, as well as EPIC project delivery is helping to lower the cost and risk associated with offshore wind farm developments worldwide.

Slide 15 shows our aim for the integrated JV with Schlumberger which we announced earlier this year. It's our belief that by working closely together, Subsea 7 and Schlumberger can create value by providing our clients with solutions that enhance production and improve flow assurance. We will do this by engaging earlier and developing joint technology that delivers integrated field design and life-of-field services.

Integration has already been shown to provide our clients with lower cost and lower risk solutions, illustrated by a number of awards to the market over the last three years. From a small beginning, client interest continued to grow and we remain confident that the approach will deliver a sustainable long-term value.

Turning to slide 16. Our value proposition for integrated services considers three course plan. Firstly, by engaging earlier and leading the solution for our clients, we are able to show opportunities to simplify, standardise and optimise field design. This approach has already led to four projects awarded to our subsea integration alliance with Schlumberger OneSubsea, including the Mad Dog 2 project for BP, the largest project awarded worldwide with this model.

Secondly, as part of our joint venture approach, we are preparing to integrate our life-of-field services with that of OneSubsea. Our services are highly complementary. Together, we see significant opportunity to lower the cost of field maintenance and extend field life through production enhancement and digitalisation.

Reflecting onto the third focus area, jointly developing integrated technology to support both the EPCI projects and the life-of-field services. Initiatives so far have included plans to include SPS equipment in our bundle towheads and to introduce more sensors to collect flow data for predictive maintenance and improve recovery. Working together, we are simplifying Subsea equipment design and processes to lower the cost and complexity of installation and explore opportunities for standardisation. We are making good progress with our transition to a joint venture and expect to complete this before the end of the year.

Moving to slide 17, our technology initiatives are delivering good results, targeted on areas that bring most value to our clients. Our bundle technology has advanced a long way since the first bundle was installed in 1980. Our bundles are enabling development of higher pressure and higher temperature of fields which were previously too costly to proceed. We are continuously pushing the boundaries of these proprietary technology; the Snorre bundle will be the longest and heaviest we have installed to-date.

We have maintained our R&D investment through the downturn prior to realising initiatives that lower the cost of development for our clients. We've also invested in companies with pioneering technology, either to bring the technology in-house or to support it as it continues to develop independently. Our latest successes include investment in Swagelining where we recently completed industry qualification for polymer connectors and airborne oil and gas where the programmes has been initiated for the qualification for composite risers in South America.

We have over 750 granted and pending patents as we seek to protect our technology assets and deliver sustainable value for our shareholders as well as our clients.

I will conclude with the outlook on slide 18. We have seen a significant increase in awards to markets and to Subsea 7 over the last nine months. The initial cluster of new projects has mostly comprised of tie-back solution for incremental production. This project typically have higher return on capital and lower breakevens for our clients. Pricing remains relatively low, particularly for project with planned offshore operation within the next 12 to 18 months, but we have not changed our prudent approach. Our bid are submitted with the terms and condition and adequate contingency on a cash positive basis.

We are seeing good levels of tendering activity and the visibility of FID and the larger Greenfield projects is improving. Offshore India's integrated 98-2 project for ONGC is expected to be awarded to market in the second half of this year. Offshore Brazil, the Mero 1 project is anticipated either in Q4 or Q1 and offshore Mozambique, the Golfinho project is likely to be awarded to market in 2019.

Conventional project in the Middle East under the LTA with Saudi Aramco remain in focus and we continue to tender for new awards. The long-term outlook for EPCI project in renewables and heavy lifting is positive, with tenders ongoing in Taiwan, Europe and the US. The first EPCI wind farm project in Taiwan has been awarded to a competitor but there are other opportunities in the region that we continue to tender for. In Europe, some of the larger renewable project are taking longer than expected to be awarded due to changes in project ownership and governmental approval schedule, but we are still confident this will come to market in due course.

To give you some examples, three large EPCI wind farm project in France and the UK, which were initially planned for execution in late 2019, are now likely to be developed in 2020, early 2021. We are targeting transport and installation work to utilise capacity in the near term but this will not be sufficient to compensate for the delayed project.

In i-Tech Services, the level of tendering has increased for spot work and the outlook for utilisation is improving. However, there are no large awards to expecting to market near term and activity and pricing remains relatively low.

To summarise, the market for awards is characterised by lower pricing from an underutilised supply chain as well as improvement from earlier engagement, new technology and simplified solution. The next year or two will be tough but we believe pricing will improve as activity levels recover. We are well placed to win our fair share of work, based on our market leading capabilities, strong relationships and commercial positioning.

Q&A

Operator
Thank you, ladies and gentlemen. If you wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered. Our first question comes from the line of James Evans from Exane BNP Paribas. Please go ahead. Your line is now open.

James Evans
Good afternoon. Thank you for taking my questions. Just a couple from me. Firstly, I wondered if you could talk a little bit about any areas you see for incremental investment into the business? You've always talked about this as being your first priority for usage of cash. So post the SOC transaction, do you see any other sort of attractive areas for investment over the next year, be it in renewables or elsewhere? And my second question is, I just wondered if you could give a little bit more colour on the outlook for conventional work out in West Africa, an area that's been traditionally strong for you. You've won your first award there over the last quarter for quite some time. Are there other bright prospects out there for you over the next few months or year or so? Thank you.

Jean Cahuzac
Thank you, James. Regarding incremental investment, I mean, we are always looking at opportunities, and we'll address them if they come and when they come. I would say they are two kind. It's the type of investment that we've gone in the past, like ECS, but it's also investment on new technology. And we intend to look at potential investment on new technology which are complementary with what we do. Our balance sheet allow us to consider opportunities when they come.

Regarding the West Africa conventional business, you are right. I mean, we are seeing a gradual improvement, mainly driven by the agreement which have been put in place between the IOC and the Nigeria government. PUPP is the first project. But we expect more project to come to market in the near and medium term. And as you know, Subsea 7 is very well positioned in West Africa and Nigeria in particular, based on history and past experience.

Jean Cahuzac
The other thing that I can also mention is that we are seeing a lot of tendering activity in Saudi, in particular with the LTA that we have with Saudi Aramco but not only the LTA, so there is more work coming there to market also.

Frederik Lunde
Thank you. I know you don't want to give guidance for 2019 but you were alluding to 2020. So can you just give a very broad sort of picture how you see in 2019? Will it be broadly similar to 2018 or would you expect a further dip in margins?

Jean Cahuzac
Well, I would say, we're not – it's too early to give guidance on 2019. But I think what's happening on the market is what we alluded to before, what we mentioned before. For the margins to increase, we need to have increase of order intake, increase of activity offshore. And I think when you look at the results and the order intake which have been announced, not only by Subsea 7 but also by our competitor, Technip and Saipem, is going in the right direction. Activity level needs to increase, margin will follow.

Frederik Lunde
That's great. And can you also comment on the working capital movement? And also you narrowed the range for CAPEX. Is there any particular driver for that and how do you see maintenance CAPEX going forward, with increasing utilisation role?

Ricardo Rosa
Yes, good afternoon, Frederik. As far as CAPEX is concerned, I think we're constantly monitoring our forecast for the year. And have effectively reset our figures and concluded that it was possible to tighten the guidance on CAPEX this year. We are spending some money on reactivation, including the Navica. And we are making the finishing touches to the Inagha which is working in the Middle East. But all of that's been taken into account.

At this stage, given the size of the fleet and absent any other vessel reactivations – there are only two that's idle at the moment – we don't see a significant shift in maintenance CAPEX in the coming year.

Frederik Lunde
And can you also comment on the working capital?

Ricardo Rosa
On the working capital, which I was turning to, I think I gave some fairly extensive comments in my prepared notes. I think what you will notice, if you look at the notes to press release that covers movements in net operating assets and liabilities, is that there has been a significant increase in the operating receivables balance, which has been driven in part by the Beatrice project, which Jean – which has already – which we've already mentioned is in its closing stages in the third quarter. And we expect therefore to be able to close out certain receivable positions.

And in the Middle East, we have some administrative issues that we're addressing and we expect them to be successful with the result that we expect a reversal there in the third and fourth quarter. So overall, I'm expecting working capital to revert back somewhat from its position in the remaining six months of the year

Amy Wong
Hi. Thanks for taking my question. Jean, in your closing remarks there, you made a couple of comments about – in summary, lower pricing, lower utilisation, next one or two years will be very tough. Do you think you guys are at the right size right now in terms of your assets and people, in preparation to protect returns in this tougher environment?

Jean Cahuzac
Yeah. Thank you for your question, Amy. Maybe to clarify maybe one of my comments, what I meant is that we are seeing pressure on margin for short-term jobs. As I mentioned before, when activity picks up, we expect margins to gradually improve. But in short-term, yes, there is pressure on margins.

Regarding the size of the company, we have been very proactive to prepare ourself for the downturn. We are now seeing the market improving. We will remain cautious in increasing resources to match the focusing our activity increase in the years to come. We are where we want to be. And I think we are well positioned. When you look at our order intake, our cost structure is quite competitive. So I'm quite pleased where we are.

With decrease of activity of PLSV, I mean, we talk about Phoenix stopping operation in August. We will continue to downsize the operation there to match the level of activity. Cost control obviously remains a priority. And I would say that the integration of ECS and SHL is well advanced, and will continue to come to continue to be executed in the months to come in an efficient way. That's also in the right direction to control cost.

Amy Wong
So just a follow-up on that. If you see – will that result in you carrying some cost into 2019 which would be like a transition year for you guys and into 2020? Or how should we think about how your cost base matches the 2019 activity levels that you anticipate?

Jean Cahuzac
Well, I think in terms of our internal cost, we are going to increase some of the resources that we have to execute the project when activity picks up. But it's a combination of internal resources and contractors which gives us flexibility to adapt to be up and down on each project. So I think we have flexibility to control the cost going up in the future and to adapt it to the new environments. So I'm comfortable that we are on top of cost control.

David Farrell
Hi. Two questions from me. Firstly, can you just talk about using your balance sheet to fund independents and their projects? There is quite a lot of press in talk about Sea Lion moving forward on behalf of Premier. And then just switching over to the renewables business. Is there anything that you can say about why you lost the tender for the EPCI wind farm in Taiwan? Was it merely down to price or was there some other factor involved there?

John Evans
Yeah, I think, David, the new market in Taiwan we're taking what we've done in Europe and moving it over to different part of the world. There are other packages in Taiwan to be bid and we're actively bidding those at the moment. It's too early to tell what we need to do to adjust our position in Taiwan, but we will track it and we'll adjust accordingly to where we need to be.

So for us, also Taiwan takes assets off around the world from where the main areas of play on in renewables. So again we will just tune our offering in Taiwan in due course, but we are still bidding the large cable packages that are available on the first package in Taiwan, as well as some other second phase opportunities that are coming.

The other question then I think was Sea Lion. Maybe Ricardo – your question was really around what was happening with project finance-related opportunities. Maybe if I just sort of talk a little bit about Sea Lion and then Ricardo will follow through. Premier is one of our relationship clients. We have done many years worth of work with Premier and we have worked with them over the last couple of years on FEED studies and supporting activities on the Sea Lion project. And we will continue to support them as they try to get that project to FID in the next year or so.

As part of that, there have been some discussions about financing scenarios as well. Maybe Ricardo, you can cover what we've seen in the market about some of those type of questions.

Ricardo Rosa
Splendid, John. I think David, there is a phenomenon that we're seeing at the moment that is restricted largely to independents that are perhaps having difficulties in obtaining traditional sources of financing. So they are turning towards the contractors to see if they will help in kick-starting a project. I think another factor too is that they are very IRR focussed. And to the extent that the financing they can obtain from whatever source is available, so long as it helps them improve their IRR, they'll certainly request it.

So, I mean, our position is that we will remain open to their requests. We will risk assess it. And if it makes sense, we will consider it. But our preference is that they find sources of capital from both financial institutions but also export credit rating agencies such as – or I should say export credit agencies such as the UKAF, which is quite active in this sector.

So it's an area that we have virtually no exposure in the present. That is just something that we're monitoring and could give rise to a source of additional activity. But we will tread very carefully.

Kévin Roger
Yes, hi. Good afternoon. Maybe if we can focus ourself on the renewable segment for two questions please, because if I look at the margin on the renewables segment, it has been quite low for the past three quarters. So I was wondering, how should we think about it over the long-term? Especially as this quarter your top line is comparable to the Q3 2017 when you generate quite huge margin at close 20% but you are still very low this quarter. And maybe in terms of size of opportunity that you are chasing, notably in France because the French government has basically give its green light for the development of the project. So maybe if you can precise the global size of the project that you're chasing, especially in France, please?

Jean Cahuzac
Yeah, I'm going to let John answer specifically to your question. But I would say that we haven't changed our view on renewable. I'm personally quite optimistic about renewable. It obviously has this timing of projects but nothing has changed in our view. We see more and more – I would say, more and more momentum in Europe but also as we mentioned Taiwan before. So it's going in the right question. The question is what's happened in the very short term. It doesn't change our long-term view on renewable which is core to our strategy. John, you want to –?

John Evans
Yeah, so Kévin, I think if we take the questions as you raised them. We've always said the renewables has an element to political decision-making involved in the process of sanctioning projects. We saw in France that the subsidy regime was reviewed again by the government, that very quickly an agreement was reached with the operators to do that. So again, we would expect the next phase of the French wind projects to come into the market and be available for bidding. So again, the political side is always something that we've understood in this business but the trend, long-term, is positive.

We're bidding for some cable lay work in the US at the moment, which is the start of the US market and we again feel that that market will grow in due course. And finally for us, we see in the UK and Germany as being two very strong markets which have always been strong for SHL. And we continue to see that will grow our business longer term. So again, we can still see a lot of positive messages from the UK government and the German government about which way they are going to go. So for us, we've always said there'll be lumpiness associated with the projects. And I think it's fair to say we're also clear with our analysts and our market that three quarters ago, it was a timing question, about the timing of the availability of certain free issue materials on Beatrice. We have now completed the bulk of Beatrice and we are sitting in this quarter now having a full and final settlement with our client. And we expect that to take place in the next quarter or so, which will allow us to tidy up Beatrice. And as we said before, when the big projects come to an end, generally we can relook at how we stand on the projects at the end when we get that final settlement.

So we see France being positive. We see UK and Germany remaining positive. New markets like Taiwan and US will always be new markets. They'll take some time to penetrate. But longer term we feel comfortable with the business overall.

Kévin Roger
Okay, thanks. But maybe just one follow-up in terms of, let's say, EBIT margin generation over the long-term. Because it clearly looks like over the past quarter of the performance has probably be below your expectation, with an EBITDA margin close to breakeven when you are executing the Beatrice project. So just the margin has been dilutive for you. The business has been dilutive for you recently. So just to understand how it should have evolved over the, let's say, the mid-term in terms of margin contribution; what are the typical margin of those kind of projects?

John Evans
I don't think we need to go in to the specifics of the margins, but we need to remember in oil and gas that EPCI margins are lower than T&I margins because the EPCI type work brings in a lot of other procurement and engineering related items. Also as well, we need to remember that our seaway business has a lot of T&I work installing substations and such like, which fill in gaps between some of the larger projects.

So for us, it's a mixture of T&I work, which is short-term, generally slightly better margins, and then longer-term EPCIs. So for us, I think it's probably best to reflect at the end of this year how will the renewables business would look like. And that will give you an ability then to take a view on how we see it.

Anne Gjøen
Thank you for taking my question. I have also a question related to renewables on this T&I work. Is it possible for you to comment where we typically could see margins when it's dominated by T&I work? Because I would assume that 2019 also could most likely be called a transition year in that business area. Or is it opportunities coming in that could suddenly turn also 2019 already?

John Evans
Well, shall I just finish off there, Jean? I think, as we said in the prepared words of Jean, 2019 will be predominantly a T&I year in our renewables business and that's how we will focus on 2019. We see that the larger EPCI contracts in France and the UK, because the change in ownership in one of the large fields in the UK, should come into play in 2020 and 2021. So we should think of 2019 in renewables as a T&I year predominantly.

Jean Cahuzac
Yes, I would also add something that one of the strengths of SHL is the fact that in addition to renewables, the company is also in the heavy lift. And that can be combined with some other business of Subsea 7 for some other projects. And when you talk about T&I, I mean, the visibility is not as high as when you talk about the peak in terms of timing. So we see what happened in 2019. Things can show up but not at the last minute but basically it can improve the situation.

So again, I mean, if I want to summarise where we are overall, no change in our view of renewable. Although some of the projects of 2019 are postponed. But I mean, I'm personally quite optimistic and bullish about this business in the medium term. And then regarding the market of oil and gas, the order intake that we've seen in the industry is what we need to be able to see improvement of the margin in the middle term. So that's also going in the right direction.

And as far as the Subsea 7 is concerned, I mean, our focus on cost and our cost control, and also controlling risk, which means that we are still tendering the jobs in a very prudent way is the are right thing to do. And that's what we'll continue to do up to the end of the year. As we mentioned before, in terms of the guidance for 2018, no reason to change what we said before in the previous quarter. So there is where we are.

And I think with this, I think I would like to thank you for participating to this earning call and looking forward to answering your questions at the next earning call and meeting you in between in meetings.