Subsea 7 S.A. Release of Q4 2017 Results
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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, and welcome everyone to our Fourth Quarter and Full Year 2017 Results Conference Call. With me on the call today are Jean Cahuzac, our Chief Executive Officer; Ricardo Rosa, our Chief Financial Officer; and John Evans, our Chief Operating Officer. The results press release is available to download on our website, along with the presentation slides that we'll be referring to on today's call.

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

I'll now hand the call over to Jean.

Jean Cahuzac
Thank you. Good afternoon everyone and welcome to our 2017 Results Conference Call. I will start with the highlights of our performance before handing over to Ricardo who will cover our financial results in more detail. I will conclude with a review of our strategy as we prepare the next phase of the cycle, strengthening and growing our business. As usual we will take your questions at the end of the call.

I shall start with our highlights for the year on Slide 4. We reported $1 billion revenue for the fourth quarter. Our full year revenue was almost $4 billion, 12% higher than the prior year, helped by the increase in activity in renewables. Fourth quarter net operating income was $28 million, with $581 million for the full year. As expected our adjusted EBITDA margin of 26% was lower year on year. This reflected fewer projects in the final stage of completion, lower offshore activity levels and reduced pricing on projects awarded in the downturn. These headwinds will continue to affect us in 2018.

Our operational performance remained strong with an emphasis on safe and reliable execution worldwide. We reported total vessel utilisation of 55% in the fourth quarter and 61% for the full year. Good fit management and a reduction in chartered and owned capacity resulted in a full-year active vessel utilisation of 71%.

Order intake of $979 million in the fourth quarter represented a book-to-bill ratio at 0.98, meaning that we replenished our order backlog at the same pace as we executed existing contracts. For the full 12 months of 2017, we reported order intake of $3.3 billion, including $1.1 billion added through the acquisition of Seaway Heavy Lifting and EMAS Chiyoda Subsea. Order backlog was $5.2 billion at year end.

Our financial and liquidity position remained strong. At the year end, we had a net cash of $826 million and undrawn credit facilities of approximately $650 million. In view of this position and the gradual increase in the volume of tendering activity, a special dividend of NOK 5 per share will be recommended by the board at the AGM. Our AGM will be held on 17th April. We will be holding an AGM on the same day to our shareholders to renew the authorised share capital of Subsea 7 SA.

There is nothing new about this. It is just a renewal of authorisation granted in 2016 that is due to lapse later this year. We encourage you to participate in this meeting. The agenda and notices will be issued in a couple of weeks.

Slide 5 shows some of our recent projects. In the fourth quarter, the Atoll project was substantially completed, helping BP to achieve first gas seven months ahead of schedule, and we made good progress on the West Nile Delta, GFR project, both offshore Egypt. We also completed the Maria project, offshore Norway, delivering a highly cost effective solution for our client base on a more flexible and efficient agreement for project management.

We maintain a high level of utilisation for all seven of our PLSVs working offshore Brazil for Petrobras during the quarter. In 2018, three of our contracts for lower-end aging PLSV come to an end, the first of which Seven Condor ended in January. As a result, Seven Condor will be scrapped, as with the PLSV Kommador 3000 when its contract expires in April. The PLSV Seven Phoenix will continue operation until July after which we expect it to be cold-stacked.

Our major renewable project, Beatrice Offshore Windfarm, progressed with fabrication and installation. 33 of the 84 jackets were installed by the end of December. i-tech services performed well with Life of Field projects and firm agreements.

Turning to Slide 6, we are differentiated by our experienced and skilled people and our modern and diverse fleet of vessels. In the downturn, we reduced our capacity commensurate with lower levels of market activity. We are now preparing our business for the next stage in the cycle. We have added both people and vessels through strategic acquisition and announced an investment in a new high specification rigid reel-lay vessel especially for long distance tie-back projects in the future. We also welcomed 41 new graduate engineers to Subsea 7 during the year as we selectively focused on recruitment and development.

Moving on to Slide 7, $5.2 billion order backlog at the end of 2017, including $3.1 billion of work to be executed in 2018. The majority of this is ready to SURF and conventional activity, including the PLSV contracts, which contribute $1.3 billion to the total.

In the fourth quarter we saw an increase in award offshore Norway. Statoil awarded the Snorre project which will use our proprietary Pipeline Bundle technology. And we announced the Skogul and Aerfugl project for Aker BP. Aerfugl is the first project to use our Electrically Heat Traced Flowline technology which we expect to install using our new-built rigid reel-lay vessel.

In addition to the $5.2 billion backlog reported at the end of the year, we were awarded the Johan Castberg project we started in January. And earlier this week we were awarded the Nova project by Wintershall. The Nova project uses Swagelining’s Integrated Liner System, which is a highly cost-effective anti-corrosion pipeline technology. Both the Nova and Johan Castberg projects are located offshore Norway and the awards will be included in our 2018 first quarter order intake.

Turning to Slide 8, many of our clients have published data showing the improvement in project portfolio break even costs. Project values are sometime less than half than earlier estimated for the same fields. Since the fall in oil price, our industry has implemented many change to drive down costs, most of which are sustainable for the long term.

We have identified six main drivers of lower projects costs. These six main drivers are as follows. Our clients are engaging earlier, enabling the introduction of latest technology and integrated solution. This is also an opportunity to optimise full lifecycle cost of the field with solutions that optimise total expense, including maintenance and decommissioning cost. Second point is closer collaboration with suppliers and clients is helping to lower the risk profile and reduce the time to first oil and gas. Our partnership with Aker BP has been particularly effective in this regard. We are also seeing strong evidence from Subsea integration alliance that SURF and SPS collaboration can substantially lower the project cost.

We have also used our experience and long track record of excellent execution to seek out opportunities for leaner processes. The increase in project management cost in the last up cycle was not sustainable. We have introduced better ways of working without compromising safety or performance.

We’re also seeing deflation across the supply chain which contributed to lower project costs. Less demand for materials and project has resulted in more competitive pricing for procurements. This will partly unwind when demand recovers, and some of the projects costs are being reduced. In some cases projects are being split by our clients to smaller package or developed in a phased approach over a longer period. We are also optimising design and simplifying equipment.

And of course margin reduction has played a part in the cost reduction, with most contractors, including Subsea 7, accepting lower prices to secure near-term work. There is no strong sign that the price are recovering yet, but with rising activity we expect a gradual margin improvement. Our industry has successfully adapted to and remained competitive in the lower oil price environment.

These six drivers have all contributed to sustaining the long-term future of offshore oil and gas projects in a market that is challenged by cheaper alternative source of supply. However, we believe the margin pressure and supply chain deflation will largely reverse over time.

I shall now hand over to Ricardo to talk about our financial results in more detail.

Ricardo Rosa
Thank you Jean, and good afternoon everyone. Slide 9 shows the highlights from our income statement. Fourth quarter revenue was $1 billion, taking the full year 2017 to $4 billion, up 8% and 12% respectively compared to 2016. This was mainly due to additional conventional activity following the acquisition of ECS in June and an increase in the renewables activity as we executed the Beatrice Windfarm project. Adjusted EBITDA of $176 million in the quarter and $1 billion in the full year resulted in margins of 18% and 26% respectively.

The deterioration in percentage margin in the quarter was anticipated and we continued to mitigate the effects of the market downturn with disciplined execution and continued cost control. Diluted earnings per share were $0.17 for the quarter, up $0.16 compared to the prior year period. For the full year, diluted earnings per share was up by $0.09 to $1.36. However, adjusting for the impact of goodwill impairment charges in 2016 and net re-measurement and bargain purchase gains and acquisitions in 2017, full-year adjusted diluted earnings per share was $1.27, 18% lower than the previous year.

Slide 10 provides more detail behind the income statement. Our reported net operating income of $581 million for 2017 included $43 million of losses related to joint ventures and $32 million for impairment charges related to operating assets. The loss from joint ventures and associates included vessel-related impairment charges totalling $24 million from two discontinued joint ventures.

Our income before tax of $555 million in the full year included a net re-measurement gain of $25 million related to the acquisitions completed in 2017. Other losses of $55 million mainly related to unrealised foreign exchange movements. The tax charge for 2017 was $100 million, equivalent to an effective tax rate of 18%. This benefited from the geographical composition of our net operating income and the reduction in certain irrecoverable tax assets. Net income for the year was $455 million.

I will now turn to Slide 11 to cover the performance for each business unit. Fourth quarter revenue of $1 billion was 8% higher compared to the prior year period. The contribution from SURF and conventional grew 7%, largely as a result of the acquisition of ECS during the year. Renewables and Heavy Lifting increased by 28% as the Beatrice project progressed well. These gains were partly offset by i-Tech Services, which reported revenue down 21% due to lower activity levels. Fourth quarter net operating income of $28 million was 38% lower compared to the prior year period, excluding the $19 million goodwill impairment charge in 2016.

Net operating income for SURF and conventional in the fourth quarter was down 38% on the prior year period due to lower offshore activity levels, fewer projects in the final stages of completion and lower prices on projects signed in the downturn. It also included a $32 million impairment charge related to operating assets, compared to a charge of $138 million in 2016. i-Tech Services reported a loss of $5 million, an improvement on the $9 million loss reported in the fourth quarter 2016.

Activity levels and inspection repair and maintenance have declined with the completion of the EPRS project and lower demand for services in the US Gulf of Mexico. However, this was partly offset by higher utilisation of ROV support vessels in the North Sea. Renewables and Heavy Lifting reported a net operating loss of $3 million in the quarter. This was due to the scheduling of future activities on the Beatrice project, with additional costs booked in the quarter for which the related revenues cannot yet be recognised. In 2016, SHL was equity accounted for, so the prior year performance is not directly comparable.

For the full-year 2017, group revenue increased by 12% on 2016, benefiting from an increase in revenue from Renewables and Heavy Lifting. SURF and Conventional revenues was down 10%, as the lower activity on SURF projects was only partly offset by the additional conventional activity in the second half of the year. i-Tech Services revenue declined 20% with reduced IRM activity in all regions. Full-year net operating income of $581 million was 5% lower than the prior year or 20% lower, excluding the impairment charges on operating assets reported in both years.

Slide 12 summarises our expenses divided into four categories. Since 2014, we have delivered $1.5 billion of cost savings and efficiencies on vessel and people costs, equivalent to a 50% reduction from our cost levels at the peak of the cycle. Vessel costs, which include asset impairment charges in all three years, have diminished to $500 million. During 2017, we returned three chartered Life of Field vessels and disposed of one owned vessel for recycling. Operating costs for the active fleet have been tightly controlled throughout the year with additional savings achieved.

Net people costs include all permanent and contracting staff, both offshore and onshore. The $200 million reduction in people costs, compared to 2016, reflected continued cost discipline and the benefits of restructuring and resizing efforts in 2015 and 2016. Procurement costs are a function of the volume mix and phasing of our activities. In 2017, we saw a $700 million increase in our procurement costs, largely related to our Renewables business. Our depreciation and amortisation costs were $51 million higher than in 2016, reflecting the arrival of new vessels in our fleet.

Turning to Slide 13, I will comment on the key drivers of our EBITDA margin, which was six percentage points lower in 2017 compared to the prior year. Although still higher than our historic average at present, we expect our margin to deteriorate further in 2018 before returning to a more normal level medium term.

Firstly, we have adjusted our capacity to line to market condition. However, it was important that we retain the capability that makes us a leading partner for our clients. This means we may not fully recover all of our fixed costs when activity levels are low. As illustrated by our asset utilisation, we have seen a significant deterioration in our activity levels in the downturn. We have retained capability somewhat to the detriment of our margin performance because we are confident that market activity will improve in the medium term.

Secondly, our project accounting requires us to take a prudent approach to cost and revenue recognition through the life of a project. We recognise costs, including contingencies in our percentage of completion, or PoC accounting, as soon as we are aware of them. Conversely, there is a higher level of certainty and visibility required for revenue recognition, which can only be included once we are highly confident that the revenue has been earned and acknowledged by our clients.
This can result in a low or even negative margin in the early stages of a project and a higher EBITDA margin at the end. Later stage projects, therefore, tend to have a positive impact on our EBITDA margin. In 2017, we had far fewer projects in the final stages of completion.

The EBITDA margin benefited from a high level of project completions in 2015 and 2016 and was enhanced by our strong operational performance, which resulted in the de-risking of projects and substantial cost savings during the execution phase. Thirdly, our EBITDA margin is impacted by our mix of work and the market environment at the time the contract is awarded. At the top of the cycle, before the oil price fell in 2014, there was more demand for our services than there was supply, and this was reflected in the value of the awards at the time.

In contrast, the scarcity of awards in the last three years has led to increasing price competition to secure work. On certain projects, we may accept a price that does not fully cover our forecast costs at the time of tender. However, it would be usual for us to improve on this position as the project progresses and we always look for a positive cash contribution. As we deliver our backlog of projects, a greater mix of our work comes from the lower margin awards signed during the downturn.

Lastly, we acted early to reduce our fixed cost base, with two global restructuring programmes implemented in 2015 and 2016. We have remained disciplined in our control of costs in 2017 and we are applying the same approach on recent acquisitions. This contributed to our margin out-performance in the first phase of the downturn, and will help us to mitigate pressure on our margins as we move into this, the most challenging phase of the cycle.

Slide 14 shows our cash flow waterfall for 2017. We generated $209 million of operating cash in the year. This included working capital related outflows of $724 million, as our net operating liabilities decreased, mostly due to the timing of cash flows on the Beatrice project, to former ECS projects in the Middle East and to the completion of certain projects. We do not expect to see further significant working capital deterioration in 2018, although there may be fluctuations on a quarterly basis.

Our first priority for cash is to use it to grow and strengthen our business. 2017 was an active year for us in that regard with the acquisitions of the remaining 50% of Seaway Heavy Lifting and certain ECS businesses. Our capital expenditure was $147 million, mostly on the maintenance of our vessels and – of our existing vessels and equipment. We added the flex-lay and construction vessel, Normand Oceanic, to our fleet and sold our interest in the rigid pipe-lay vessel, Sapura 3000. Both these vessels were owned by joint venture companies, in which we held a 50% interest, and there was a net $3 million cash inflow as a result of these two transactions.

Our second priority for cash is to maintain an investment grade profile. We have a strong financial and liquidity position with $826 million net cash and $656 million in unutilised revolving credit facility. In October 2017, our convertible bond matured and in total we used $435 million of our cash to early repurchase or redeem this bond during the year. This reduction in debt was partly offset by the $283 million net drawdown of our ECA facility.

Our third priority for cash is to return surplus funds to our shareholders. Today, we announced the board is recommending a special dividend of NOK 5 per share in line with the NOK 5 per share special dividend paid in 2017. The associated cash outflow in 2017 was $191 million. In July, we extended our authority to repurchase shares to July 2019, although there were no share purchases made during the year.

Our closing cash balance was $1.1 billion after cash tax outflows of $101 million and net other cash inflows of $8 million.

Turning to Slide 15 and guidance. Firstly, as of 1st January 2018, we have adopted the new reporting standard IFRS 15 for revenue recognition and IFRS 9 on financial instruments. We do not expect that the adoption of these standards will have a significant impact on the consolidated income statement or equity of the group. However, the group's opening balance sheet for 2018 will reflect the reclassification of $95 million in onerous contract revisions from the caption construction contract liabilities to the caption provisions, as required by IFRS 15.

Our guidance for revenue and adjusted EBITDA percentage margin in 2018 is unchanged, with revenue expected to be broadly in line with the 2017 and adjusted EBITDA percentage margin expected to be significantly lower. Our administrative expense is expected to range between $250 million and $270 million, slightly higher than the prior year, reflecting the full-year impact of acquisitions completed in 2017. Our net finance cost is expected to be no more than $5 million, helped by rising interest rates and capitalised interest expense on the vessel under construction.

Depreciation and amortisation expense is expected to be between $410 million and $430 million, in line with 2017. And our effective tax rate is anticipated to range between 25% and 27%, reflecting the anticipated geographic mix of activity in the year.
Capital expenditure is expected to be between $250 million and $300 million. This range includes approximately $115 million for the new rigid reel-lay vessel which is under construction for delivery in 2020.

I will now pass you back to Jean.

Jean Cahuzac
Thank you, Ricardo. Turning now to Slide 16. As a leading strategic partner in the offshore energy industry, we aim to generate long-term value for all our stakeholders, our clients, people, shareholders and the society in which we work. The needs of our stakeholders are interdependent. We aim to perform well operationally and financially in addition to being a good employer and responsible contractor.

The value we create is driven by distinctive attributes: our experience, expertise, scale, reliability, relationships and financial profile. These qualities are key to our performance and make us a preferred partner.

Slide 17 details some of the action we have taken to protect our business in the downturn and the opportunities we are taking to build a better, stronger Subsea 7 for the next phase of the cycle. We've acted quickly to the more challenging market condition, initiating successful alliance and client partnerships that lower the cost of the offshore development. We took opportunity to diversify and strengthen our business long-term with counter cyclical investment in the Middle East and expanded presence in Renewables. We maintain our programme of fleet modernisation, investing in cost-effective, capable vessels throughout the downturn.

As we look ahead to the next phase, we will continue to build value with targeted investment and strategic programmes. We have started 2018 well in this regard with progress on several fronts.

Moving to Slide 18, Subsea Integration Alliance was formed by Subsea 7 and OneSubsea in 2015 to deliver integrated SURF and SPS services to our clients. The support has been very successful, with a number of awards and good client interest in the lower-risk, lower-cost solution that have been identified.

We announced last week the next evolution of this alliance, a plan to form a 50:50 joint venture with Schlumberger. The proposed joint venture will build on the expertise from both companies to further strengthen the front-end engineering, design and also execution and integrated projects and provide full lifecycle services. The joint venture will also simplify our sharing of proprietary information and the creation of new technology, helping us to accelerate our joint innovation and development programmes. We will be both contributing our Life of Field business, creating a unique integrated full field lifecycle offering. The vessel we'll use for Life of Field activities are all chartered. We don't expect to move any owned vessels into the joint venture.

Turning to Slide 19, working in an integrated way, Schlumberger and Subsea 7 will increase to improve the full life productivity of the field and optimise the total CAPEX or TOTEX investment by our clients. We have already been achieving this with Subsea Integration Alliance and the transition to a formal joint venture will announce this with additional focus on the OPEX phase as the field lifecycle.

Moving to Slide 20, earlier engagement is key to supporting our clients to achieve the optimal field solution on integrated as well as segregated projects. Subsea 7 announced a 60% investment in a leading energy consultancy, Xodus, forming a joint venture with Chiyoda who will retain 40% stake. Xodus will continue to offer objective and unbiased engineering and advisory solutions. This new relationship will supersede the KG7 alliance with KBR and Granherne, although we will continue to work with them on a project-by-project basis.

Slide 21 shows the increasing importance of renewable energy activity to Subsea 7. Subsea 7, through its subsidiary SHL, has been involved in offshore wind farm installation for many years, applying our skills and competence in heavy lifting to the installation of wind turbine foundations in shallow water. Building our established presence in this sector, we announced today an agreement to acquire Siem Offshore submarine power cable business and the 2Siem offshore vessel that enable this activity. By adding cable capability to our EPIC service offering, we expect to increase our market share and offer the client a more comprehensive service.

I shall conclude on Slide 22 with our outlook. The oil and gas market have seen a gradual increase in activity, with the growing volume of sanctions and awards. However, at present pricing, it’s challenging, and we expect margins to remain low until excess capacity is utilised. We are addressing this through our lower cost solution, using our experience and technical expertise to drive out inefficiencies. We see some of the active project tenders that we expect to see awarded to the market in the near to medium term. The timing of awards remain uncertain and may be timed unevenly through the year.

Tenders are actively bidding and closely monitored; include the Penguin projects offshore UK; the Golfinho and Mamba projects offshore Mozambique; the Zinia project offshore Angola; the Integrated 98-2 project offshore India; phase 2 of the Gorgon development offshore Australia; and the first of the Libra projects in the ultra-deep-water offshore Brazil. There are many more projects that we are tracking. This is just a summary of some of the most likely SURF project we expect to be awarded to the market in the short to medium term.

Forthcoming conventional awards include the Barzan project in shallow water offshore Qatar and various tenders offshore Saudi Arabia, and the LTA with Saudi Aramco. We are also seeing some more conventional opportunities offshore Nigeria. In preparation for an increase in shallow water work, we are preparing our stack hook-up vessel, Seven Inagha, to return to active service this year.

We continue to build a number of renewable project around the world with medium-term opportunities in Europe, Taiwan and the US. We are currently bidding on EPIC wind farm foundation project in France, Le Tréport and NoirMoutier. The bulk of the offshore installation activity related to the wind farm tenders is scheduled for 2020 or later.

i-Tech Services is focusing on opportunities in the Caspian Sea, the North Sea and the US Gulf of Mexico, as well as Asia. We are confident that we continue to win our fair share of work. In this context, we remain committed to keeping the right risk profile and focused on delivering projects safely and on time for our clients.

And with that 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 first question is from the line of Amy Wong UBS, please go ahead, your line is open

Q & A

Amy Wong
Hi good afternoon it's Amy from UBS. A question on your strategy to acquire Siem offshore contractors. I just wanted to understand what's the rationale between owning these vessels outright versus having a working relationship with Siem offshore in order to provide that one-stop shop service? That's my first question please.

Jean Cahuzac
I think firstly you have to see that as part of our confidence of the business in Renewables and the fact that we are seeing growth in the years to come. It's also confidence in the business model that we are seeing Renewables where integration of services and providing broad integrated services allows to lower cost, minimise the risk and, at the end, propose a better value proposal for the client. Up to today, we've been over the last few years focusing on the foundations and when you actually bid for the foundations, in most of the projects, the array cable business comes as part of the package. Good example is Beatrice where it's a key component of the success of the project.

So we see that as part of a longer strategy to strengthen our proposal in renewable and offer a broader package in an integrated manner.

Amy Wong
I have a question on your SURF business as well. Can you just comment on, in terms of 2018 and 2019, would you expect – how would you expect your activity levels to trend year over year into the next two years please?

Jean Cahuzac
I think when you look at 2018 and 2019, I think the first thing we see is a gradual increase in the number of jobs that we believe will come to market. We have been saying that for a couple of quarters that we see this trend continuing. So we definitely see the same trend of gradual improvement of activity. The question is timing of some of the very large projects that we believe a number of them – and I listed a few of them previously – will come to market in 2018. We also see acceleration of projects in the North Sea, particularly in Norway, so we are, I would say, remain cautiously optimistic on what we are seeing. The trend is right, it's going in the right direction.

Operator
The next question is from the line of Kevin Roger of Kepler Cheuvreux, please go ahead your line is open.

Kevin Roger
One quick question on the Renewable activities please. During the presentation you say that the margin was negative in Q4 because you had to recognise costs that were not potentially linked to revenue for the moment. Could you please explain these extra costs, is it something related to the execution of a cost delay, something like that, please?

Jean Cahuzac
Yes, I would say, I'm going to ask John to answer specifically on the Renewable project, but I would say the approach for Subsea 7 has always been very disciplined and very cautious in recognised cost when they occur. And even when we are quite confident that this cost will generate additional revenue, we don't recognise the revenue until we are 100% sure that there is a commercial deal which has been finalised. It's

not only in renewable, it's in SURF, it's in life of field; we have a very cautious and prudent approach. John, do you want to specifically mention that risk?

John Evans
So Kevin, good afternoon, So Beatrice, as you know, there had been an issue with one of the fabricators that we were working with, called Bifab. Bifab were also fabricating the substations which are a key part of this project which are pre-issued to us as part of our contract. So we've had to re-sequence the work in 2018 around delayed delivery dates for the substations, which affect not only our installation activity but also the work on the cables, as Jean mentioned earlier.

So we have re-costed the project fully with the sequence that we're now going to exploit this year to deliver the project, again in time with the sequence for first power with no change in that date. There will be then a variation order discussion between ourselves and our client associated with our change. What we didn't have was enough surety in the level of revenue recognition at the year end, hence the reason we took the cost and not the revenue.

Jean Cahuzac
And maybe an additional colour on Beatrice, we've been delivering projects very efficiently in the last couple of years. And Beatrice is a project which is run very efficiently by a very good outstanding team of SHL and Subsea 7 and it's another project which overall is going on very, very well.

Kevin Roger
And maybe a follow-up, so in Q2 and Q3 you generated around $40 million to $50 million net operating income. Without this extra cost that you recognised this quarter would it be fair to assume that your net operating income would have been the same one that in Q3 and in Q2?

Jean Cahuzac
I think we don't answer this type of question or commentary on the project. I think we would recognise the revenue when we are sure it will be collected.

Isabel Green
Hello operator please go to the next question please

Operator
Next question Morten Nystrom from Nordea bank, ok please go ahead, your line is open.

Morten Nystrom
Yes, there seems to be something wrong on the conference call. Maybe it's back on track now, so, yes, I'll try. Regarding your comments about activity level in 2018 and 2019 and your comments about a gradual improvement, if you could be more specific in terms of phasing of project here. In order to be able to deliver same revenues in 2018 – or in 2019 versus 2018, what is needed? Would you need to see awards in the first half of 2018 or could you actually also see awards in late 2018, early 2019, which could fit in a situation that can build margins in 2019?

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

John Evans
Yes, so in 2018 there are still number of projects which we expect to come to the market in the first part of this year. We expect to see Zinia awarded to the market. We expect to see Penguins awarded to the market. We also expect to see Burullus 9B awarded to the market, which, again assuming that we had a reasonable success rate on some of those projects, we would be seeing work executed this year.

Going into 2019 then, we see large projects like Barzan in Qatar, which should be awarded to the market around in the middle of this year. And also behind all this, the LTA framework with Saudi Aramco means that there is a reasonably consistent flow of opportunities in Saudi. And we would expect to see some awards on the LTA agreements coming in the next few months as well.

Morten Nystrom
Ok, another question that is related to the question you get every quarter and that is the EBITDA margin. Your guidance is obviously quite wide here, a significant drop. Consensus for 2018 stands at 18.5%. Are you able to put some more colour on that margin compared to, let's say, your own expectations? And my final question relates to bread and butter orders. At TechnipFMC call they said that they saw an increase in, let's say, smaller awards that typically they didn't announce. Are you seeing the same trend that unannounced order could pick up from here versus the last few years? Thank you.

John Evans
I will take the last one and then I will hand over the questions to Ricardo. We are seeing smaller projects coming our way. There are a couple of brace repairs to be done in the North Sea on some damage to our platforms and we intend on work on one of those quite soon, again very small in value generally. But they start small, sometimes they grow. So I think it's fair to say that we are seeing opportunities for some of the small projects to come into the market quite quickly. And Subsea 7 is generally in a good place to pick up its fair share of those.

Ricardo Rosa
Morten, with regards to EBITDA guidance in 2018. In my prepared comments I provided what I believe is a great deal of colour around the drivers we are seeing at the moment at this stage in the cycle, both in terms of excess capacity and some pricing pressures associated with it, as well as the fact that our mix of projects that shifted away from large projects which are in their final stages of execution to new projects at the earliest stage, where the tendency is for relatively reduced margin recognition as the projects are still in that pre de-risking phase. So I don't see how we can provide anymore colour than that which we've already provided.

Jean Cahuzac
Sorry, I would add one point to that, the lower margin in the fourth quarter was in part due to the usual seasonality of the business and the phasing of certain projects, as Ricardo mentioned. We have continued to see an impact on seasonality in the first quarter of this year, but we do expect that will improve in the summer months, as it does every year.

Morten Nystrom
Ok, that was actually my quick question, if the margin developments, if you compare that to Q4 but you answered it so thank you.

Operator
Next question is from Tommy Johannessen of SpareBank1 Markets, please go ahead your line is open.

Tommy Johannessen
Thank you for taking my question. My first question is regarding the Catcher project which reached first oil in Q4, but it's still in your project schedule. Do you expect to complete this in Q1?

John Evans
Yes, it will be complete now, in quarter one.

Tommy Henison
OK thank you. And on the backlog award by date, you have a fairly large share of the backlog award in 2012 and 2013. But when I look at the project schedule, I can only see Aasta Hansteen which is actually dating back to those years. So is there a lot of smaller awards included in those figures?

John Evans
Yes, those figures included the extensions to the frame agreements which we were benefiting from in Life of Field.

Tommy Henison
OK thank you. And just a final question on Siem offshore contractors which had an EBITDA of $25 million in 2017. What can we expect going forward from SOC?

Jean Cahuzac
Well, I'm not going to comment on the EBITDA moving forward as detailed numbers. What I would say is that we are seeing them performing very well in Beatrice. It's a very competitive company and will remain a very competitive company in Subsea 7 in SHL. And we will profit from additional business synergy to work together, so results should be good on the long term.

Tommy Henison
Ok thank you that was all from me.

Operator
Next question is from the line of Rob Pulleyn ofMorgan Stanley, please go ahead your line is open.

Rob Pulleyn
Hi good afternoon gentlemen. A few questions if I may. Just picking up off the last question, the Life of Field work which is still in the backlog from 2012 and 2013, when would which come up for renegotiation? Obviously the terms may change versus the last cycle. The second one is, when you look ahead, given all these structural changes you've made to the business through the down cycle and to assess a normalised year for your core business, what percentage of Renewables versus conventional, do you envisage, i.e. how fast will that Renewables business be growing?

And then also if we could revert to the Beatrice project, would you be willing to provide us with the normalised margin in the fourth quarter if you haven't had the Beatrice issue? And obviously this is a somewhat unique contract to yourselves that we haven't seen before. What's the probability of success on that variation order that you mentioned? Thank you very much.

Jean Cahuzac
Well, I'll take the last two questions. I'll let John answer on the Life of Field question.

I would say – I mean, the Beatrice project for us is it's a very large project, but the same type of large project that we run in oil and gas. We have the organisation, the structure to execute this project successfully. So it's Renewable but it's not different from a lot of projects that we were handling in the past, handling today and handling in the future. So, as I said before, we take a cautious approach when we recognise cost and we don't recognise revenue before they are in. But what I could say that it's a very well-executed project and the margins are in line with the bid, so no bad surprise from my perspective here.

Regarding the Renewable business, on the longer term – on the long – medium to long term Renewable business is, without any doubt, a growing business. In 2018 and 2019, there will be project for execution in 2021, so we'll see what the future will give. But I'm quite optimistic on the future. It can be a bit lumpy during some short-term periods and could be a bit lumpy in 2019, but we'll see what the future says. It's a bit too early to conclude.

John Evans
In terms of Life of Field, the Life of Field work is all coming up for renewal in terms of we're seeing our clients looking at different models. We're currently bidding Statoil's five year *Life of Field* campaign**.** BP are looking at how they push ahead with their future campaign needs as well. So, the market is adapting and changing from where we were three to four years ago, Rob.

Jean Cahuzac
There is one thing that I want to highlight about the Life of Field, the announcement about the intent to form the joint venture with Schlumberger and to actually bring our Life of Field business, except the diving, in the joint venture. It's opened for us a new opportunity, a new era; access to technology, digitalisation, combination of new project of technology, integrated team. I really believe we're going to see a step change on the Life of Field business, which used to be relatively small in Subsea 7, will play a growing role with the joint venture alliance. I'm quite enthusiastic about what we have in front of us in this area.

And I think we did it also on the conventional side, but, I mean, we see a growing activity in the Middle East in the conventional study. And with the LTA with Saudi Aramco , as well as the tenders which are going to be awarded to market in Qatar, we believe it's going to be a growing market and maybe in a shorter term than longer term.

Rob Pulleyn
Thanks very much on this. That's very helpful. I'll turn it over.

Operator
Next question is from the line of Frederik Lunde, Carnegie, please go ahead your line is open.

Frederik Lunde
Good day. First one is for Ricardo, as usual share buybacks. You've now completed a lot of acquisitions which look very sensible, well timed and well executed. I'm just curious how you think about buybacks going into 2018?

Ricardo Rosa
Frederik, we have this discussion every time we meet and I'm happy to continue it. Clearly, we have listed our priorities for the use of our cash, and returning cash to shareholders is one of them. And again, we've delivered on that by announcing a NOK 5 dividend subject to shareholder approval. We have maintained, and we will continue to maintain, our share repurchase mandate. But we, unlike some of our competitors, have decided not to commit to a regular programme of repurchase. I think part of that is influenced by some of the recent strategic transactions that we've been involved in and the possible impact on share price volatility. But we keep the share buyback option, as an option to return cash to shareholders and that remains at the discretion of the Board as to when to best utilise it.

Frederik Lunde
Great. And can you also comment on your unannounced order intake because it was quite sizable this quarter? And I understand that relates to basis scope increase on existing contracts. Is it possible to quantify the potential – the similar projects were scaled down in the downturn. Is it possible to quantify the potential for a scope increase on the current backlog?

John Evans
I think, Frederik that was quite a particular one to one of our projects, where the client wanted some variation orders and changes done due to some routing issues on the projects. So we received some variation orders from our clients in quarter four to go into action on a specific routing issue on one of the projects was one off the bigger elements in that building block about money. So every now and again, on projects, when you physically get to the location, something is different, something changes and therefore then things need to be adjusted, so that is one of the building blocks of that change.

Frederik Lunde
Ok thank you

Operator
Next question is from the line of Anne Gjøen of Handelsbanken, please go ahead your line is open.

Anne Gjoen
Thank you. I have a question related to $32 million in impairment in fourth quarter. Could you say if that is mostly within the SURF area? And in addition to that, when you comment that today's acquisition will be accretive to EPS in 2018, when do you assume it will be included in your P&L? Is that from third quarter 2018 or second quarter 2018, for example? Thank you.

Ricardo Rosa
Yes, good afternoon. Firstly, in respect of your question on the asset impairment, I can confirm that the vast majority of it relates to our SURF and conventional business unit, and is as a result of an evaluation that we do every year, and identify those assets whose economic value have been impaired. With regard to the acquisition that we announced this morning of Siem offshore contractors, I confirm that we did indicate that we expect it to be EPS accretive in 2018.

The only potential delay in completing the transaction is that we need to obtain a clearance from the German authorities – competition authorities I should say, and we don't expect that to take long. We're assuming approximately 30-40 days which is why we've indicated that we expect the transaction to complete either this quarter or in Q2. And once completed, we will consolidate the results in the Renewables and Heavy Lifting business unit.

Anne Gjoen
Thank you

Operator
Next question is from the line of Gregory Brown of Credit Suisse, please go ahead your line is open.

Gregory Brown
Hi, guys, thanks for squeezing me in. Two question if I may. The first is, in regards to the proposed joint venture with Schlumberger, as partners, would you be looking to cooperate on any new technologies? And if so, with the joint venture framework, how do you approach the ownership of any subsequent IP that would be created?

And then second question, in terms of current bidding activity, you've described pricing as competitive. Are you seeing many signs of your competitors bidding below project cash costs in order to secure market share? Thank you.

Jean Cahuzac
I think on the last one I cannot comment on whether competitors are doing or not doing. What I can tell you is that we are always bidding cash positive.

Regarding the joint venture, I said it before, but I'm quite excited about what this joint venture is going to achieve. And I think you are quite right. In particular in the context of the technology programmes, both sides will have access to IP which is owned today by the parent company. This IP will be made available to the joint venture.

Regarding the Life of Field, a very ambitious plan will be developed on the technology side to grow this business, as I mentioned before, and that will be jointly owned in the Life of Field. And on the SURF side, there will be a technology programme, which will be agreed and developed by the parent companies through the joint venture, and they will be 50%-50% owned. So the technology discussion will start once we clear with the competition authorities, but it will be the first priority. And it's one of the key elements which will make the difference of what we're going to achieve together.

I would like to say just a last comment on this joint venture. The difference of the joint venture, compared with some other setups, is the fact that it provides access to the subsurface reservoir knowledge and intervention capability of Schlumberger. And that provides the joint venture a unique differentiator compared with our main competitors. Again, a great opportunity. It worked very well. We're going to build on that in the years to come. That will make one – it's one way to make the difference.

I think we have time for one more question.

Operator
And the last question is from the line of James Thompson, JP Morgan, please go ahead your line is open.

James Thompson
Great. Thank you all for taking my final questions. I will keep it brief. Just two very short ones. You said you're going to reactivate another vessel. I just wanted to check the name of that, firstly.

Secondly, obviously you've added quite a few heads this year in terms of the acquisitions you've just done. I just wanted the trajectory through 2018.

And my third question was really just what's left to finalise within the JV? And have you seen some of the projects that you're flagging in your list to 2018, 2019 being rebuild and integrated? And is that sort of being an ongoing driver there? Thanks.

Jean Cahuzac
Yes. I mean, the first thing, the vessel that we are activating is in Inagha, it's lift barge that we mobilised from Africa to Middle East because we see opportunities there and she already has worked there, so that's good news.

Regarding the increase of headcount, I mean, obviously the big opportunity with the acquisition of EMAS Chiyoda business was to start with a large scale operation in Middle East. And that has allowed us to bring in the Company some pretty good talent who actually knows this area very well, so that's quite positive. We will keep in the future for the Group the discipline in terms of headcount control and the cost control, so that hasn't changed. And that will be a priority in the years to come.

John Evans
The last question was you're asking about the level of interest in integrated projects. You know, we're still seeing a high level of interest in that. We've just put the pricing in for 98-2 for ONGC in India, which is a very large integrated project. But I think the industry and the market is responding very well to the fact that on certain conditions and certain clients' project portfolios, the integrated opportunities work well.

Jean Cahuzac
And we intend to close on the joint venture set up before year end. We have to go through a number of discussions and antitrust filing, etc., as usual. So that will be done in a timely manner.

John Evans
In the meantime, *the alliance will keep working as well.*

Jean Cahuzac
But we are seeing – I mean, we mentioned it in an earlier call, we are seeing a clear momentum in terms of – and growth of activity in terms of early engagement and we've been working with the alliance very well on that. And we see more and more interests from the clients on integrated projects. So we intend to put this joint venture together – I mean, really the timing is perfect. We are positioning ourselves for when these projects will be awarded.

James Thompson
Ok that's very helpful, just if I have 30 seconds for a final one. In terms of the acquisition you've made today, is that a realisation that it's been quite difficult to bid on the renewable projects in 2017 and you needed this additional offering to complete your bid as it were? And you talked about an ability to take the market share. Or is it really that the bid just sort of coming to fruition through 2018, 2019? So it hasn't hindered your progress in 2017, I suppose, it's more that the timing is always being 2018, 2019 there.

Ricardo Rosa
No, it's not a defensive move. It's in fact a proactive move. We will be more efficient and more effective by integrating the new business in SHL. We were competitive, we will be more competitive and more cost-effective. That's all.

Jean Cahuzac
So with that, I would like to conclude on the call today. And we would like to thank you all for joining. If you have any follow-up questions, please contact Isabel, our Investor Relations Director. But I would say, the times are still challenging, but I'm quite encouraged with the results of the strategic move that we've done in 2017, at the beginning of 2018, and I'm really looking for the medium term in a positive and optimistic way. We are very well positioned for what we can see in the years come. Thank you and looking forward to talk to you at the next earnings call.