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Presentation

Operator
Hello and welcome to the Subsea 7 Release of Q4 and Full-Year 2018 Results Call. Throughout the call, all participants will be in listen-only mode and afterwards there will be a question and answer session. Just to remind you, this conference call is being recorded. Today, I'm pleased to present Isabel Green, the Head of Investor Relations. Please go ahead with your meeting.

Isabel Green
Thank you, Jerry. And welcome everyone to our 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 slide that we'll be referring to on today's call.

Turning to slide 2, may I remind you this call includes forward-looking statements that reflect our current view and are subject to risks, uncertainties and assumptions. Similar wording is included on our press release. I'll now hand over the call to Jean.

Jean Cahuzac
Thank you, Isabel, and good afternoon everyone, and welcome to our 2018 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 strategic highlights for the year and some specific progress on our early engagement capability, including Subsea Integration Alliance. At the end of the call, we will take your questions.

Starting with our highlights for the year on slide 3. In the fourth quarter, we reported just over $1 billion of revenue, 85% generated from our SURF and Conventional business unit. Full-year revenue was $4.1 billion, 2% higher than the previous year, with increased revenue from projects in the Middle East, which were acquired part way through 2017. Revenues were lower in other business units, Renewable and Heavy Lifting and the renamed Life of Field business unit, formerly known as i-Tech Services. Our full-year adjusted EBITDA was $669 million, with a margin of 16% for both the full year and the fourth quarter in 2018. Total vessel utilisation was 70% in both the quarter and the year, an improvement of the respective prior-year periods as the oil and gas market started to recover. A total of six vessels left the fleet and four joined as we balanced the fleet to meet our needs. Two vessels were stacked in the year, giving an active vessel utilisation of 76% for the year. We maintained a strong financial and liquidity position, with $1.2 billion, made up of net cash and our unutilised revolving credit facility at year-end. This enabled us to return surplus cash to shareholders, with nearly $300 million paid out in dividends and share buyback. We completed our $200 million 2014 share repurchase programme in February 2019 and today we have announced a new $200 million share repurchase programme with a two-year validity. This is in addition to the recommendation to shareholders to approve a NOK 1.50 per share special dividend, with an estimated total value of $55 million. Our net operating income was $200 million for the year. Our order backlog was $4.9 billion at the end of the year, reflecting an order intake of $4 billion, which reflected our competitiveness and ability to deliver cost-effective solutions to our clients. We announced 20 new projects with awards for all the three operational business units.

Slide 4 shows some of the recent activity. Our operational performance remained strong in the quarter, with an emphasis on safe and reliable execution worldwide. The PUPP project is a conventional project off the coast of Nigeria. In the quarter, the Seven Antares was offshore laying pipe. This fast-track project, having only been awarded at the start of the second quarter, has made good progress and additional work has already been added to the original scope. We were active on the Snorre expansion project in Norway in the quarter, with a fabrication of pipeline bundles in our facility in Wick. The first of the Snorre project bundles will be installed later this year, via our low-cost controlled depth tow method. The West Nile Delta Phase II project offshore Egypt reached a significant milestone at the end of the year. All wells in the Giza and Fayoum fields reached mechanical completion and we handed over to BP, where first gas has now been achieved. We will continue to work on the project in 2019, with one of our flexbile lay vessels installing pipe on the Raven field later this year. In the Middle East, we also have been busy on numerous successful projects, including 17 Cranes, which has entered in its close-out phase. Offshore UK, the Brent Bypass project progressed well, with structures and spools installed by vessels Seven Kestrel and Seven Atlantic. A key milestone was reached in the quarter, with the cutting of the 36-inch pipeline, enabling Shell to commence the decommissioning of this historic platform. When complete, the Hornsea One Windfarm will be the largest off the coast of the UK, Seaway Offshore Cables executing the engineering, transport and installation works related to some of the inner array. In the fourth quarter, Seaway Emery, our specialised cable-lay vessel, installed 58 cables. Our Life of Field business unit performed also well, with up to six vessels working on various projects and service agreements. We completed a hybrid battery package upgrade installation on the Seven Viking in December and this vessel has since mobilised onto the new five-year Equinor IRM contract that was awarded in the second quarter 2018. Our fleet of four high top tension PLSVs remain highly utilised in the quarter, with no significant downtime in Brazil. These vessels are all on firm contract that lasts until 2021 and 2022.

Turning to slide 5, $4.9 billion order backlog at the end of 2018 included $2.8 billion of work to be executed in ’19, covering approximately three-quarters of market expectation for 2019 revenue. The backlog mainly related to SURF and Conventional activity, which included $0.9 billion for our four PLSV contracts. Approximately $110 million was de-recognised from the backlog in the fourth quarter, due to the cancellation of the Fortuna project in Equatorial Guinea. Order intake of $4 billion gave us a book-to-bill of 1x for the full year with new projects and long-term agreements all around the world, including several in new geographies, such as Taiwan, Senegal, US East Coast and the Caspian Sea. In the fourth quarter, five awards were announced and a total of $0.9 billion was awarded. In the Gulf of Mexico, the Manuel project was awarded by BP, the second project to use our electrically heat traced flowline technology. In the North Sea, we were awarded the Shearwater project for Shell and the renewal of our DSVi Frame Agreement, which was extended to include an additional seventh client. In Africa, we were awarded the Turret Remediation project for Tullow, offshore Ghana. And in Asia, our Renewables and Heavy Lifting business was awarded the Yunlin Windfarm project offshore Taiwan, where we will be completing EPIC work relating to the inner area grid and export cable system in 2020. And just yesterday, we announced a five-year frame agreement for Life of Field services in the West of Shetland, our 19th year of service for BP on this arrangement.

I will now hand over to Ricardo to present our financial results in more detail.

Ricardo Rosa

Thank you, Jean and good afternoon, everyone. Slide 6 shows the highlights from our income statement. Fourth-quarter revenue was $1 billion, taking the full-year 2018 to $4.1 billion, both broadly in line with the respective prior-year periods as the increase in activity in our SURF and Conventional business unit was offset by lower revenues from Renewables and Heavy Lifting. Adjusted EBITDA percentage margin was 16% for both the quarter and the full-year periods, reflecting the challenge of delivering projects that were signed at lower prices during the downturn. In 2018, we generated adjusted EBITDA of $669 million for the full year and $163 million for the quarter, down 35% and 7%, respectively when compared to 2017. Diluted earnings per share was 12 cents for the quarter, taking the full year to 56 cents.

Slide 7 provides more detail behind the income statement. Administrative expenses increased by $8 million in the quarter and $42 million for the full year compared to the prior-year periods. This was mostly due to increased tendering costs as the market activity recovered and for the full year the cost of consolidating acquired businesses. Our reported net operating income for the year was $200 million. This included $39 million of impairments. $12 million of the impairment charge related to rationalisation of the ROV fleet in the Life of Field business unit and $27 million mainly related to intangible assets recognised on the acquisition of ECS in 2017. Although the acquired ECS businesses performed well, with good execution on acquired projects in the Middle East, Gulf of Mexico and Ghana, the value ascribed to our long-term agreement with Saudi Aramco has been reset, based on the pace of new awards and an enlarged competitive set. Net income was $165 million for the year, after a tax charge of $52 million. The effective tax rate of 24% reflected the geographic mix of our activities in the year and positive outcomes on a few uncertain tax positions. As a result, the rate was two percentage points below the lower end of our expected range for the year and gave rise to an effective tax rate of only 8% in the final quarter.

We now move to slide 8 to look at our performance in more detail, starting with our performance in the fourth quarter. Our SURF and Conventional business unit generated 85% of the group’s revenue in the quarter, with a significant contribution from conventional projects offshore Nigeria and Saudi Arabia, combined with good execution on SURF projects in general. In addition, the four PLSVs on long-term contracts for Petrobras achieved high levels of utilisation. Renewables and Heavy Lifting’s revenue in the quarter was significantly lower compared to the prior-year period. The Beatrice project was materially completed in 2018 and the Borkum II project is in the commissioning phase. As work on these large projects comes to an end, we face a reduction in offshore renewables activity. Fourth-quarter revenues generated in our Life of Field business unit were in line with the prior-year period. The group’s net operating income for the fourth quarter was $23 million. SURF and Conventional income of $64 million benefited from increased activity on projects in the North Sea and offshore Africa, including good progress on the West Nile Delta Phase II and Snorre projects, as mentioned earlier by Jean. Impairment charges of a similar size were recognised in both years.

Renewables and Heavy Lifting reported a $13 million net operating loss in the quarter, with slower progress than planned on the Borkum II project due to poor weather. The $17 million net operating loss in Life of Field included a $12 million impairment charge related to ROVs. For the full year, net operating income was $200 million, with income from SURF and Conventional and Renewables and Heavy Lifting activities partly offset by losses on the Life of Field and Corporate Business units.

Slide 9 summarises our expenses divided into four categories. In the early years of the downturn, we swiftly reduced our costs, cutting capacity while maintaining capability. This has enabled us to respond to the market recovery while keeping cost growth to a minimum. Vessel and other costs, which include impairment charges, have diminished to $0.5 billion and stayed at that level. We ended the year with 33 vessels in our fleet, two fewer than at the end of 2017 and 11 fewer than at the peak in 2014. Our strategy is to own the high-end or specialist vessels so that we have full control of their availability for our projects and supplement this with charter vessels to provide additional capacity. We continually look for ways to be more efficient with our fleet, saving costs as well as reducing greenhouse gas emissions. As an example of this is our Clean Operations initiative, with over 3,600 recorded measures taken to lower energy use on our vessels in 2018, with an associated cost saving of approximately $3.1 million. Our people costs remain at half of the peak expense, while our headcount of 11,000 people is 25% lower than in 2014. The 14% increase compared to 2017 reflects the integration of acquired businesses, increased variable costs associated with higher levels of offshore activity and our investment in graduate-level recruitment programmes. Procurement costs are a function of the volume, mix and phasing of our activities and the pricing environment for procurement. In 2018, we saw a $300 million increase in our procurement costs, mostly related to an increase in SURF and Conventional project activity. In 2018, there was no measurable impact from supply-chain price inflation, but this risk will become more prominent as the industry-wide recovery in offshore oil and gas projects continues. Our depreciation and amortisation costs were broadly in line with the prior year and reflect our investment in our fleet and the lower average age of our vessels.

Slide 10 shows our cashflow waterfall for 2018. We ended the year with $765 million in cash and cash equivalents and a net cash position of $507 million, after offsetting the remaining $258 million in borrowings on our ECA facility. The $334 million reduction in cash compared to the prior year reflected $180 million invested in acquisitions, $238 million of capital expenditure and $297 million in cash returned to shareholders in the form of dividends and share repurchases. Our operating cash generation was robust, with a stabilisation of the working capital outflow in the second half of the year. In the fourth quarter, our net operating liability position improved by $40 million, benefiting from improved collections from clients.

Moving on to slide 11, Subsea 7 is a cash-generative business and we have clear priorities on how it should be invested. We are a top-tier partner for our clients and to maintain this position we have made targeted investments in our people, our technology and our fleet throughout the downturn. We have also strategically invested to strengthen the group's capabilities with acquisitions of businesses and vessels to support growth areas such as offshore wind and conventional oil and gas. In 2018, we acquired Seaway Offshore Cables and two related vessels for our Renewables and Heavy Lifting business unit. This additional capability has already led to the award of approximately $200 million of renewables work with transport and install contracts offshore Taiwan and the US, both new wind markets for Subsea 7. Our capital expenditure in 2018 included approximately $125 million towards the construction of a new reel-lay vessel, the Seven Vega, which is on track to start work in early 2020. This vessel will significantly increase our reel-lay capacity and will in due course replace the older reel-lay vessel, the Seven Navica. Not included here is the opportunistic acquisition in January 2019 of a ten-year-old diving support vessel, the Seven Pegasus, for approximately $40 million. The Seven Pegasus will replace the 35-year-old Rockwater 2, which was sold for recycling in the fourth quarter of last year. We paid a special dividend of NOK 5.00 per share in 2018, equivalent to $204 million. In addition, we repurchased eight million shares at a cost of $93 million. We completed our $200 million share repurchase programme on 19th February this year, with a further 4.5 million shares repurchased since the year-end, for a total cost of $50 million.

Turning now to slide 12 and our guidance for '19. Firstly, as of 1st January 2019, we have adopted the new reporting standards IFRS 16 for lease accounting. We presented our estimated impact of this change at our last earnings call and the estimates are repeated with minor adjustments in the appendix on slide 30 of this presentation and in note 16 of our financial statement. 2018 was not affected by the new standard and we will not be restating past results or comparatives. Our guidance for revenue and adjusted EBITDA percentage margin in 2019 is unchanged, with revenue expected to be slightly lower than 2018 and adjusted EBITDA expected to be lower, inclusive of the uplift of between $100 million and $110 million applied to 2019 as a result of the implementation of IFRS 16. Despite the lower adjusted EBITDA, net operating income is still expected to be positive for the group. Our administrative expense is expected to range between $260 million and $280 million, slightly lower than the prior year as we maintain cost discipline, particularly on tendering, and focus on further integrating our recent acquisitions. Our net finance cost is expected to be between $10 million and $20 million, inclusive of the new lease-related finance charge of between $10 million and

$15 million. Depreciation and amortisation expense is expected to be between $480 million and $500 million, inclusive of an amortisation charge relating to the capitalised leases that we estimate to be between $90 million and $100 million. Our effective tax rate is anticipated to range between 33% and 35%, reflecting the anticipated geographic mix of activity in the year, with increased activity in jurisdictions with a higher tax burden. Capital expenditure is expected to be between $270 million and $290 million. This range includes approximately $100 million for the new rigid reel-lay vessel, the Seven Vega, which is under construction for delivery in 2020.

I will now pass you back to Jean.

Jean Cahuzac

Thank you, Ricardo. Turning to slide 13, I would like to take some time to review our strategic highlights. We have invested throughout the downcycle in strategic opportunities, helping accomplish our vision in leading the way in the delivery of offshore projects and services for the energy industry. In 2018, we maintained our focus on technology and early engagement, which are key for delivering cost-effective solutions to our clients and margin enhancement for us. Our investment in Xodus has enhanced our ability to execute early engagement activity, such as concept and FEED studies. Subsea Integration Alliance, our alliance with OneSubsea – Schlumberger, continued to see more successes in the year, with new projects awarded in the US, Africa and Australia. The advancement of our multi-bore bundle connector and standardised umbilical terminal assemblies are two examples where the Subsea Integration Alliance has been able to create solutions that will make the delivery of offshore projects for our clients more efficient and differentiate our solutions. We continue to increase our position in the renewable energy sector, with the acquisition of Seaway Offshore Cables and two associated vessels. The integration of Seaway Offshore Cables has progressed well and our strategy was rewarded with the award of projects in Taiwan and the East Coast of the US. The Beatrice and Borkum II EPCI projects were substantially completed, with all foundation installed by the end of the year. The ability not to only install but also engineer, procure and manage the fabrication of these large projects is clearly a key differentiator. Although we do not expect to work offshore on a new EPCI project in the renewable sector this year, we foresee a strong future activity in this sector as we are tendering for several projects scheduled for execution in later years. We actively manage our fleet, ensuring we have the right capabilities and capacity to meet long-term market requirements. Because of targeted investment and fleet discipline, our average vessel age has reduced to ten years, making it one of the youngest amongst our competition. Along with introducing new vessels to the fleet, we also make modification when appropriate to existing vessels. Seven Viking was upgraded with battery capability, making her our first hybrid vessel. This upgrade will not only reduce fuel consumption cost but should also cut the vessel's carbon dioxide emissions by up to 20%.

Turning to slide 14, through the downturn we demonstrated that the earlier we are involved with our clients, the more impact our solutions have on reducing project costs and execution risks. Early engineering services provided by Xodus for client-led solutions and Subsea Integration Alliance and Subsea 7 for supplier-led solutions have all seen a significant increase in activity year-on-year. For supplier-led studies, we have seen nearly three times as many studies conducted in 2018 than in 2015. This increase was across all regions as the benefits of early engagement and engineering are recognised as being fundamental in executing the best solution. At the end of 2018 and the start of 2019, Subsea Integration Alliance was awarded two sole supplier integrated FEED studies by Woodside Oil and Gas for large greenfield projects: Scarborough offshore Australia and SNE Phase I offshore Senegal. These were of particular significance, because upon FID (final investment decision), these FEED studies will turn into project awards, which we will execute.

Turning to page 15, I would like to share an update on the success of Subsea Integration Alliance to date. We have now delivered over 70 concept studies and pre-FEED with our alliance partner, OneSubsea. Integrated project solution allows for a single service delivery for project and risk management, engineering, manufacturing and offshore installation and is one of our operational models which reduces costs for our clients. Subsea Integration Alliance has successfully completed two fully integrated projects, Dalmatian and Otter, and we have six more on the way. I would specifically like to highlight the momentum of the work we are undertaking in Australia on integrated projects. We have a long history in the region and recently our integrated offering has achieved success with the West Barracouta project for ExxonMobil, as well as a Scarborough FEED for Woodside.

On page 16, I would like to share how we are positioning Subsea Integrated Alliance for future growth. Building on the success of Subsea Integration Alliance, we have appointed a dedicated joint management team to strengthen front-end engineering, sales and design and execution of integrated projects along with a further development of joint technology portfolio. The new management organisation will be led by CEO Henning Berg from OneSubsea and supported by Subsea 7's Stuart Fitzgerald as

Deputy CEO. Together they will lead the day-to-day operation of Subsea Integration Alliance. Henning will report to a board which will comprise of myself and John Evans, Subsea 7's CEO, and senior members of Schlumberger and OneSubsea organisation.

Turning to slide 17, superior led early engagement works best if you have the right portfolio of technology to implement. We own over 200 active patent families and our bespoke technology has been pivotal at reducing the break-even price of many projects. On this slide, we show just four of the many solutions we developed in the year. On pipeline bundles, our pipeline bundles continue to be the right solution for numerous clients who seek a low-cost tie-back solution. Two new pipeline bundle projects were announced in 2018, the Penguins and Buzzard projects, both offshore UK. We continue to develop pipeline bundles by enhancing them for deeper waters, higher temperatures and higher pressures, along with including more monitors and sensors in the tow heads as part of our digitalisation programme. The Snorre bundle, which is currently under fabrication, incorporates the newly DNV-qualified LinerBridge connector. This connector allows for a simplified and more efficient connection of our Swagelining polymer-lined pipe. This connector has now enabled Swagelining technology to be applied to reel-lay projects. Two reel projects will use this connector later in this year. Our digitalisation roadmap reached a significant milestone in 2018 with the rollout of SubseaPlan, the Triton software which was made available by Schlumberger to Subsea Integration Alliance. It allows early engagement solutions to be developed more efficiently by utilising sophisticated cloud-based planning tools. The final technology I want to highlight is our electrically heat traced flow lines. The photo on the presentation was taken at our Vega spoolbase where the pipe for the Aerfugl project is soon to be lined with electrical cables, ahead of spooling onto our new-build reel-lay vessel, Seven Vega.

Turning to slide 18, as we enter in 2019, the gradual market recovery presents us with opportunities, but also areas which require our focus. As the SURF market recovers, our activity levels will increase, but one of our key focuses will remain on managing cost. We maintained our capability while keeping a lower cost base when the market deteriorated, and I am strongly convinced that this approach will allow us to achieve this key objective. In the renewables market, I expect to see more opportunities from the changing dynamics as technologies advance, but also challenges as new players join the market. I'm confident that our experienced teams in Seaway 7 will successfully navigate their way through this evolution, remaining cost disciplined and client focused to build a profitable project portfolio. The future also brings opportunities. Last year, we saw great opportunities in early engagement and today I have spoken on how we embrace on this. In 2019, we expect this trend to continue and have set ourself up to maximise our offering in early engineering and design. Technology is a differentiator within our sector. The more we are able to create better ways of solving complex projects, the more value we can create for our clients and all our stakeholders. In 2019, we expect to see our first electrically heat traced flow line project executed at our onshore control centres for our operation. And finally, with six ongoing integrated projects in 2019 and many more being tendered, the strength of commitment that Subsea Integration Alliance will ensure Subsea 7's position as a leading provider of integrated offshore services.

Turning to our final slide on page 19, to review the expected outlook for each of our business units. This time last year, I named eight large greenfield projects which I expected to come to market in the near term. Of those eight, seven have been awarded to market, with Subsea 7 winning two. Although some of these markets are still subject to FID this positive momentum and increased visibility are encouraging trends for a market in recovery. Based on the tendering and early studies underway today, we expect several more large projects to be awarded to the market in the year also. For example, we are currently tendering or expecting to tender shortly for projects including Browse in Australia, Carcara, Buzios and Lapa in Brazil, Johan Sverdrup 2 in Norway, Bonga South West, Preowei and Platina in West Africa. In addition, tenders have already been submitted on the Ichthys Phase 2 and Julimar Phase 2, both in Australia, and Rovuma in Mozambique. These larger projects require longer offshore campaigns for key enabling vessels and as these come to market, industry utilisation and substantially project pricing will improve. In a market where we may still see some oil-price volatility, the majority of projects we are tendering for today have a break-even price below the medium- and long-term oil-price expectations. In our Renewables and Heavy Lifting business unit, we see limited new opportunities for substantial offshore campaigns this year, but on the horizon, in 2020 and beyond, there are good opportunities that we are tendering today. This includes transport and installation work in Taiwan, and medium-sized EPCI projects in Europe. The outlook for the renewables market is positive, with forecasts by leading third-party sources showing growth. In our Life of Field business unit, our activity levels are increasing. In 2018 and early 2019, we saw some significant multi-year IRM tenders issued and Subsea 7 was successful in winning three such awards. Looking ahead, we expect a number of smaller projects and service contracts to be awarded in 2019, but pricing remaining competitive. To summarise, we have positioned ourselves well to deliver value to all our stakeholders as we enter the market recovery phase of the cycle and we look forward to continuing our strong record of execution in '19 and to capture new profitable opportunities to grow our business as our differentiators enable us to deliver superior services to our clients.

I think with that, we can go to questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypads. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Our first question comes from the line of Michael Ray of Redburn. Please go ahead. Your line is now open. Okay, Michael Ray of Redburn, you may go ahead and ask your question. If you have your line muted, please unmute.

Michael Ray

So, can you give us any kind of rough steer on the numbers attached to that? What sort of value of projects are you working on in the FEED stage now and what could that convert to in EPC value? If you could give us a rough steer. And then secondly, just on Borkum, I think you had hoped to get all the piles in by the end of 2018, but it looks like that happened in early January, just based on press reports. So, I'm wondering, is there any P&L impact of Borkum in the first quarter of this year? Is there any kind of further loss to be taken? Thank you.

Jean Cahuzac

Yes, I'm going to ask John to answer on the Borkum project, but could you repeat your initial question, because your line – the line was cut when you were expressing it.

Michael Ray

Oh, I'm sorry. So, I was just asking on Xodus. So, you've kind of hinted at this in the presentation, but it feels like the market is slightly changing and maybe we're going to see more direct awards to the companies that have executed the FEED study, so I'd be really interested if you could quantify that addressable market for Subsea 7 – just any steer on what proportion of order intake this year you think will come from direct awards as opposed to the kind of conventional tendering.

John Evans

Okay Michael

Jean Cahuzac

I'm going to let John answer, but I mean it's true that we are seeing a market evolution on early engineering and FEED approach from our clients. John?

John Evans

Yeah. So, I'll take the question on the front-end first. We position ourselves in two different parts of the market. One is client-led FEED studies are done by the Xodus company that we jointly own with Chiyoda and they are definitely seeing an uptick in that. And that's a more traditional client-led environment, where the client wants a level of independence in the type of technology solutions, but there's certainly more uptake and interest in all the key offices in Xodus around the globe. When we then come to client-led solutions, as Jean mentioned, we've done over 70 studies as OneSubsea and Subsea 7 through our SIA alliance, and we have completed five in January this year. So, we are certainly seeing more interest in that type of model and we expect to see more of that coming to the market as this year develops. Coming back to your question on Borkum, we did complete all the piles in Quarter 4 and we'd also completed all the cables in Quarter 4. We're now in Quarter 1, completing the commissioning of each of the transition pieces, ready to hand over by April to the client the full four strings of that offshore wind farm.

Michael Ray

Okay, thanks. And is there a negative contribution from Borkum in this quarter, or are you kind of break-even or – what's the kind of status?

John Evans

Well, at the moment, we forecast what we expected to complete at the end of Quarter 4, and that's what's in the Quarter 4 figures. And we're reasonably on track to do that. We still have another month off there, but the first couple of months have been okay in terms of what we expected it to be.

Michael Ray

Okay, thanks very much.

Operator

Thank you. Our next question comes from the line of Frederik Lunde of Carnegie. Please go ahead. Your line is now open.

Frederik Lunde

Good afternoon and thanks very much for completing the share buyback programme and also launching a new one. I think that's a very welcome message to shareholders. It should be accretive, assuming this market recovery. I'm just curious in terms of pacing, are you expecting to focus a bit on value or is this more sort of within a certain time period you would wish to execute buybacks?

Ricardo Rosa

Frederik, good afternoon and I'm glad to hear that you're pleased with our continued commitment to share repurchases. You know, as you know, we've indicated in our press release that we are committing to a – or the board has authorised a $200 million programme, which we expect to execute over the next two years. And clearly, we will be looking at the opportunities, the value proposition that that represents. We believe that we have listened to our shareholders and we see it as being a priority for us to create value. So, I think you can assume that we will be moving forward on that and executing the share repurchase programme in the same way as we did the previous one.

Jean Cahuzac

In the last couple of months – I mean you're referring to the last couple of months. The way we actually proceeded in the last couple of months.

Frederik Lunde

That's great. And then on the bidding side, it's a two-fold question. First of all, 2020 backlog is shaping up quite well. And then you mentioned the two Woodside awards. You had said Saudi Aramco contract which is another award where you have been named the winner. Aker Energy is quite vocal – they expect to use Subsea 7 in Ghana. So, you must have quite good confidence and visibility when you're planning for 2020, although not everything is in the backlog. So, I'm just curious, how is this translating into pricing power? Should I expect 2020 to mostly reflect utilisation or are you also seeing better price mix? Or is that more 2021?

Jean Cahuzac

I think we are seeing exactly what we thought would happen when we talked about the market last year. We are seeing more and more projects which are coming to market – even more projects coming to – likely to come to market in the future. Sometimes some delay between ITT (invitation to tender) and FID, which makes the timing a bit difficult to evaluate, but the trend is there and going in the right direction. What – as more projects are awarded to market and the market becomes tighter on resource utilisation including vessels, we accept that – we expect that the margin will go in the right direction and that's over time.

Frederik Lunde

But would you expect the price mix to change meaningfully in 2020, or is it mostly about utilisation on the fleet next year?

Jean Cahuzac

I think – as utilisation – as utilisation improves, margin should improve accordingly. It's a gradual improvement.

Frederik Lunde

Great. Thank you.

Operator
Thank you. Our next question comes from the line of Amy Wong of UBS. Please go ahead. Your line is now open.

Amy Wong
Hi. Good afternoon. I have a couple of questions, please. The first one relates to just your Renewables division, broader in 2019. I appreciate you guys have already flagged that there's no major offshore executions planned in 2019, but you also mentioned that there were some cost initiatives being taken in that division. So, is that – what kind of performance are you guys expecting from that division in 2019, please? And on my second question, just wondering in terms of the status of the Subsea 7 – Schlumberger – your joint venture being formed. Did I miss it or has it fully completed yet and whether the accounting for that division – is it fully consolidated – sorry, proportionately consolidated or are we just picking an associate income? Thanks.

Jean Cahuzac
Good. Regarding the Renewable, I mean things are happening as we expected them to happen. I mean 2019 will be the year of low activity for Subsea 7 Renewable division and we are today seeing opportunities in terms of activity for 2021/22, mainly I would say in Europe, Taiwan and to some extent East of the US. But '19 will be a more difficult year than the previous year, as we mentioned earlier last year. There's no change there. It's going to be at the low end of our Renewable business. Regarding the SIA, if I look at the business side and the consolidation, first on the business side, I'm very pleased with what SIA has achieved in the recent past and in 2018, not only on the early engagement but in terms of our success at winning projects and our large share of the market I mean shows how effective we can be. Today, we are working very well with OneSubsea – Schlumberger and the new management team which has been announced, with Henning Berg and Stuart Fitzgerald leading the team, will allow to improve results even better. On the consolidation side and the financial side, Ricardo, do you want to comment?

Ricardo Rosa
Yes, Amy, what I would say is that the relationship has been structured such that the bulk of the revenues that will be generated as a result of this closer cooperation will be reflected in the financial statements of the two partners and any entity that's in place is going to be non-consolidated.

Amy Wong
Non- consolidated

Jean Cahuzac
The revenue and the bottom line go into the parent–

Amy Wong
Okay. Alright. Thank you very much.

Operator
Thank you. Our next question comes from the line of Rob Pulleyn of Morgan Stanley. Please go ahead. Your line is now open.

Rob Pulleyn
Yeah, thank you, yeah. Rob Pulling from Morgan Stanley. So, firstly, when you talk about rising activity – and obviously thanks for the cost chart there, Ricardo – may I ask, as you look to rehire, are you finding bottlenecks and challenges in hiring the right people, given the amount of people that have left this industry through the downturn? And the second one, if I may ask regarding return on equity, I mean what is management's expectation for mid-cycle RoE versus the 3% in 2018? And what do we need to see to actually get to that level? Thank you very much.

Jean Cahuzac
John, you want to take the resources side?

John Evans
Yeah. Thanks, Rob. I think I mentioned a couple of times in this call, we also thought about the upturn when went into the downturn and structured in particular our offshore crews around a more flexible model, which allowed us to manage our cost

during the downturn. So, we've actually managed to keep the bulk of our offshore crews working throughout the downturn, on a lower number of guaranteed days, but now as the days open up, we still have the crews available to us. Onshore, we have continued with our graduate development programmes. We're also expanding out in locations such as Kuala Lumpur, which has been an area that we expanded even during the downturn in terms of our headcount there. So, yes, we're starting to see an uptick in resource requirements, but we have plans to try to mitigate the usual constraints that we actually see and we've also looked at our digitalisation programme as being one of the areas again through digitalisation that we can reduce our dependency on needing to go through the classic cycles of increasing headcount each time as well. So, at the moment, we're seeing it reasonably under control and but also that we planned it that way.

Jean Cahuzac
Ricardo, do you want to answer on the…?

Ricardo Rosa
Yeah. Rob, good afternoon. With regard to your question on return on equity, I would remind you that we think in terms of return on average invested capital, which includes not just equity but the debt portion and, you know, we have metrics that we target as a management team and they're set forth in our annual report and are linked to our long-term investment programme – incentive programme, I should say. And within that, you will note that we – the targets that have been set is a range of between 9% and 14%. So, in the past, you know, we have achieved the upper end of that percentage range and there's no reason why we shouldn't be targeting that going forward.

Rob Pulleyn
Okay. Thank you, Ricardo. No, point taken on the different target you would look at. In terms of getting to it though, what exactly do we need to see? Is this just a significant expansion in the top line of the business or can this be delivered through mix or different types of businesses? Because obviously you guys have already delivered, you know, some pretty phenomenal cost savings, so I'm wondering just sort of mechanically, how do you think about getting back to that targeted range? Thank you.

Ricardo Rosa
I think Rob, I mean there are two key variables that we work on and continue to work on and that is obviously the asset base, if you will, and that's where the capital discipline issue comes in and therefore our capital expenditures are very – are evaluated constantly with a view to minimising the capital base we have to work with. And that also drives our focus on working capital. And as you know, with the shift in the trend at the moment, I mean working capital is a focus for all service providers in our sector. And then, on the other main variable, is clearly profitability. And we are looking at maintaining a rigid focus on cost control and cost reduction. We're looking at initiatives through technology, digitalisation and better ways of working to reduce our cost base and therefore enhance the value to our shareholders of our services, but also the provide good value to our clients. So, we've been monitored both sides of the – or both ends of the formula.

Rob Pulleyn
Oh. Thanks very much for the colour. And just because you raised it – not on the call – but on working capital, would you care to sort of give some expected direction and colour on this for 2019?

Ricardo Rosa
Sure, Rob. I mean I guess you're exceeding your brief here, but –

Rob Pulleyn
Yeah. Sorry.

Ricardo Rosa
– no problem. It's a topic I know that's of interest to, you know, to fellow investors. I think, you know, we've been reasonably – we've been encouraged by our performance in the second half of this year. You remember that I highlighted in Q3 that things were moving the right way on – particularly on client receivables. And that trend has continued into the fourth quarter. As a result, you know, we generated, or we contributed to, you know, a respectable operating cash flow of $186 million in the fourth quarter, versus $188 million in the third. However, we closed the year with an investment in working capital that was higher than I'd hoped.

However, we are optimistic that in the second half of this year – or let me restate that – the first half of this year, will shall see a continuing improvement because we have some – how should I put it? – long-dated receivables in the Middle East and Africa that we think we will be able to resolve.

Rob Pulleyn
Super. Thanks very much. I'll turn it over.

Ricardo Rosa
Okay.

Operator
Thank you. Our next question comes from the line of Anna Jorgen of Handelsbanken. Please go ahead. Your line is now open.

Anna Gjøen
Yeah, thank you. I have also questions related to renewables. Is it reasonable that first quarter should improve compared to the operating loss in fourth quarter? I would assume that could happen because of the Borkum project. And you mentioned in the conference call from third quarter that you possibly would consider to stack one of the assets in Renewables now. So, do you still consider that, or is that done ?

Jean Cahuzac
John, do you want to take the question?

John Evans
Yeah. You know, what you need to remember in our Renewables was historically Quarter 4 and Quarter 1 are relatively low utilisation periods. Quarter 1 is quiet. Both the big heavy lifters are not working. And in Quarter 2, we will be sailing one of them down to Taiwan to sub-contract on some work down there. So, it is going to be a quiet first quarter for that business. Similarly, on the cable business, there's some carry-over work on cables there, but not huge utilisation in Quarter 1. And on the other question, in terms of asset stacking, we've made a decision to move one asset into Taiwan, to see if we can gain some near-term opportunities of work there. And if there is gaps in the schedules, we'll look at understanding whether or not we stack it or park it temporarily.

Jean Cahuzac
We're moving the vessel to Taiwan on the back of a sub-contracted contract and then we need to fill the gaps, which we may or not be able to do from there. But it makes sense to do it.

Anna Gjøen
Thank you.

Operator
Thank you. Our next question comes from the line of Sahar Islam of Goldman Sachs. Please go ahead. Your line is now open.

Sahar Islam
Thank you for taking my questions. Two broad topics, if I may please. Firstly, on integrated solutions, can you talk a bit about the margins on those specific projects? And then also, just lessons you've learned from the projects you're executing so far and whether the setting up of the JV has changed the pitch to clients in any way. And then secondly on M&A. Should we assume, given the new announcement around the buyback, that there are not as many opportunities out there anymore? If you were to do something, could you talk about whether it would fit in terms of expanding geographies or fitting into that integrated solution, or just opportunistic distressed assets which might be for sale? Thank you.

Jean Cahuzac
Very different questions. So, I'll start to talk about SIA, the alliance, first. I think the margin of the projects that we are delivering with SIA comes with our ability to deliver the projects together with OneSubsea – Schlumberger. We actually have managed very

well the interface between the different services. And when you actually remove the risk for the client, you have opportunities to improve your margins. And it's working very well. We have good clients. The teams are highly motivated and the new organisation that we have put in place with a single focus point for our clients and our suppliers, with Henning and Stuart, I'm convinced will allow to do even better in the future. So, I'm personally very optimistic on what we will achieve together with OneSubsea. Regarding the M&A side, our strategy is to look at opportunities. We have the balance sheet, which allows to answer to what could become available in terms of opportunities, so we are still open to good opportunities on the market. And but we are looking at that in parallel with running our business and let's see what happens in the future. I think we are well positioned to take opportunities if and when they come. I wouldn't speculate on what can happen and when it could happen.

Sahar Islam
Very clear, thank you.

Operator
Thank you. Our next question comes from the line of James Evans of Exane BNP Paribas. Please go ahead. Your line is now open.

James Evans
Hi. Good afternoon. Thanks for squeezing me in towards the end. Jean, I think you sort of hinted at it there a little bit – you're talking about integration, but I just want to revisit maybe some of the things you said maybe a year ago about expecting maybe higher mid-cycle margins as we get this sort of shift in bidding styles. I just want to check that you're still comfortable with that. Are we actually seeing any evidence in these more Alliance-driven structures, whether it's integrated or not, of a differentiation in margin coming through? Or at the moment is it more still focused on securing more share? And my second question was – just to switch gears – was around the renewables and the tendering. You say there's a lot going on. I wouldn't expect you to name names, but do you have any visibility on you being favourite or chosen contractor for any of this work that's out there? Thank you.

Jean Cahuzac
Yeah. On the second question, I mean as you can imagine, I can't really tell you where I think we are on each individual project. I mean it's a commercial confidence there – the confidentiality's there. But I'm confident that we will win our share of what will be available in the years to come on the renewable market and there are a fair amount of projects around the world – in Taiwan, in Europe and in East Coast of the US, as John mentioned. So, we are competitive and we'll win, I'm convinced, our share of the market there. Regarding the integrated project and the non-integrated project, I think what's happening today on the market is what we thought would happen. It's a gradual improvement of the market and when we are looking at integrated, where there is less competition, we are securing a good share of the integrated market and I think the recent announcement that we've made and some future announcements to come demonstrate that. So, it's going in the right direction, but it's a gradual improvement.

James Evans
Got it, thank you.

Operator
Thank you. Our next question comes from the line of Frederik Lunde of Carnegie. Please go ahead. Your line is now open.

Frederik Lunde
Hi, I'm back again. Just one follow up. On the page 22, you show the progress on some of the major projects. You seem to have quite a high number of projects that have been around 90% completion for some time. I'm just wondering if you see any meaningful contingency releases or impacts of this in Q1 or Q2 now.

Ricardo Rosa
Frederik, as you know, we don't comment on individual projects, other than at a high level, for obvious commercial reasons. I think what I can say perhaps on behalf of the company is that we continue to execute well and to the extent that the project is – the projects are reaching the phase where they are largely de-risked, we have seen in the past that there has been some, you know, an improvement in margin. And I think that's as far as I think I can comment on that point. I don't know, John, if there's anything else you wish to add.

John Evans
That's correct. That's correct.

Frederik Lunde
Thank you.

Operator
Thank you. Our next question comes from the line of Henry Tarr of Berenberg. Please go ahead. Your line is now open.

Henry Tarr
Hi. Thanks for taking my question. I just had a query around the opportunities. You named a number of projects there that could come to award I guess over the next 12 to 18 months. If you think about that opportunity set today versus where we were 12 months ago, is it materially higher or worse, and maybe could you quantify that if possible? And then, is there any reason why the sort of win rate this year might be different to last year from a technological or geographic or other standpoint? Thanks.

Jean Cahuzac
I think overall, what we are seeing is more projects coming to market with, what we said before, sometimes some uncertainty on timing of FID compared with ITT (invitation to tender), which makes an actual estimate of starting the project sometimes a bit more difficult. But I mean it's an increased number of projects coming to market and more projects which actually fit the type of expertise and technology that we can provide, which allow us to differentiate ourselves. If you look at the technology side, I just want to mention two examples. I mean the success on the EHTF (electrically heat traced flowlines) –the heated pipe, which are developed by – which have been developed by Subsea 7, with projects both in the North Sea and in Norway and in the Gulf of Mexico, with Aerfugl and Manuel. And we have identified a number of studies which will require as an optimum solution the EHTF. So, that's a very good example. We mentioned several times the bundles, which continue to be a big success for Subsea 7. And on the Life of Field, I'm very encouraged with the three large frame agreements that we recently signed in the Life of Field. So, it's definitely going that direction. And our approach on integrated services, on technology, make me confident that we will continue to win our share of the market or more than our share of the market.

Henry Tarr
Okay. Great. Thanks.

Operator
Thank you. Our next question comes from the line of Mark Wilson of Jefferies. Go ahead. Your line is now open.

Mark Wilson
Good morning. Thanks – thank you for that. I'd just like to ask Jean, I think there is a certain contrast in some of the cautiously optimistic outlook versus backlog phasing being at, well, lowest levels for forward year and years beyond that it's been. So, in terms of your view on '19 awards versus '18, one times book-to-bill this year, $3.9 billion cost base, you must therefore, on a longer-term basis, be looking at a material increase in awards in 2019 in order to have confidence in the longer-term position of the business. If you could comment on that. Thank you.

Jean Cahuzac
We are looking. I mean I'm expecting higher numbers in terms of order intake in '19, bringing more activity in 2021, yes.

Mark Wilson
Very good, thank you.

Operator
Thank you. Our next question –

Jean Cahuzac
We can take one more question.

Operator

I think in that case, our last question comes from the line of Michael Alsford of Citi. Please go ahead. Your line is now open.

Michael Alsford

Thanks for taking the questions. I've got two, if I could. It was just really on the fleet. You've been clearly very active at managing the fleet through the downturn. I'm just wondering as you stand here today and look at the market opportunity in front of you, are you comfortable with the positioning of the fleet, or do we expect to see more changes in the next 12 months, was my first question. And then just secondly would be just around procurement costs. You mentioned the risks around inflation in certain areas and I just wondered if you could maybe elaborate on that comment and as to how you're mitigating those risks. Thank you.

Jean Cahuzac

Yeah, I mean regarding the fleet, I think it's – I'm very pleased with the way we've managed the fleet during the downturn. We have today a very modern fleet. We apply our overall strategy, which is to own and control the high end of the fleet – the technical, the highly technical vessels - and charter vessels when we need more vessels. So, I think we are – we are in a very good position from that perspective. We are looking at opportunities, if there is some bargain to be made, to acquire some vessels to replace some older vessels, then we may consider it, but in a limited manner. The example is the acquisition of the Pegasus, which will replace Rockwater 2 that we have scrapped. I think we are in a very good position on the fleet side. Regarding the inflation, as we mentioned before, we haven't seen in last year significant increase of prices, but we know that it's likely to happen now that the market is improving. So, cost control, working with key suppliers, doing with the key suppliers what we are doing already very successfully with our operators, which is to work in partnership, and also taking into account the risk of inflation on prices in our commercial approach with the clients. And all that is part of the risk management and something we are focusing on as the market recovers.

Michael Alsford

Okay. Thank you very much.

Jean Cahuzac

Well, thank you very much. Thanks to everybody for participating to this call and I'm looking forward to talk to you during the different business roadshows and at the next earnings call. Thank you.

Operator

This now concludes our call. Thank you for attending. You may now disconnect your lines.