

Subsea 7 S.A. Release of Q1 2018 Results
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Speakers:

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

Isabel Green

Thank you. And welcome everyone to our First Quarter 2018 Results Conference Call. With me on the call today are Jean Cahuzac, our Chief Executive Officer, Ricardo Rosa our Chief Financial Officer, and John Evans our Chief Operating Officer. The results press release is available to download on our website, along with the presentation slides that we'll be referring to on today's call.

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

Jean Cahuzac

Thank you, Isabel. And good afternoon and welcome to our First Quarter Results Conference Call. I will begin with the highlights of our performance this quarter before handing over to Ricardo who will present our financial results in more detail. I will conclude with a summary of the key industry trends and our latest thoughts on the market outlook. We will have time for questions at the end of the call.

Turning first to the highlights on slide 4. We reported revenue of \$809 million, 10% lower year-on-year with fewer large projects active offshore in the period. Adjusted EBITDA of \$103 million and margin of 13% reflected lower activity levels that were only partly offset by continued cost discipline and good execution. This resulted in a loss per share of \$0.03. Tendering activity and awards to market continued to increase in the quarter. Our strong competitive position was affirmed with awards and escalations totalling \$829 million in the quarter. This resulted in a book-to-bill higher than 1 and an increase in order backlog to \$5.3 billion, but with competitive pricing on new awards.

Offshore campaigns this quarter were reduced by the seasonality in the North Sea hemisphere. Active vessel utilisation was 58% and totalisation, 52%. During the quarter, we released three owned vessels for recycling, two of these were already stacked. We also returned one chartered vessel at the end of this contract.

We had a net cash of \$730 million at the end of March. We have been using our strong financials and liquidity position to support targeted investment to grow and strengthen our business. In the quarter, we completed a strategic investment in Xodus Group, an independent early engineering contractor. We also announced the acquisition of Siem Offshore Contractors and two associated vessels completing this transaction in April, just after the quarter ended. We are making very good progress towards our planned joint venture with Schlumberger. We remain on track for closure later this year and we will continue to provide updates to market on the joint venture over the coming months.

I turn now to slide 5 to look at some of our current project operations in more detail. In the first quarter, pipeline activities commenced on the West Nile Delta GFR Phase Two project with the arrival of Seven Borealis offshore Egypt in March. In Australia, the sole project began offshore preparations for 64 kilometres of pipe that has to be installed in summer for Cooper Energy.

The integrated Mad Dog 2 project continued with engineering from global project centre working hand in hand with OneSubsea. The Oda project which we're executing under our partnership agreement with Spirit Energy progressed with fabrication at the Vigra spoolbase base in Norway.

The Tyra project offshore of Denmark completed offshore operation with Seven Borealis laying pipelines supported by Seven Pacific. Our PLSVs remain active offshore Brazil with six vessels working under our day rate contracts. In April, after the quarter ended, Kommandor 3000 completed its contract and we leave Brazil to be recycled.

In renewables and heavy lifting, work continued in the three fabrication yards on the Beatrice Wind Farm Foundation and half of the jackets are now being installed offshore.

In i-Tech services, we continued to win and execute work, including drill ship campaigns, inspection services and pipeline repairs.

Moving to slide 6. We ended the first quarter with an order backlog of \$5.3 billion, slightly higher than the level reported at the end of 2017, as we begin to see the impact of the gradual improvements in award activity with the good level of activity secured for 2018 and a growing base of work for 2019.

On slide 7, the chart shows the increasing awards we have announced in the fourth quarter of 2017. With eight announced awards in the last two quarter compared to only six in the preceding 15 months. Tendering activity has been gradually improving over the last year and in the last six months we have seen more awards to market. We have been winning our fair share although pricing remains competitive. In the first quarter, we were awarded the Johan Castberg project offshore Norway by Statoil and the Nova Project by Wintershall on the back of successfully completing the very cost-effective Maria project for them last year. The 3PDMs Project offshore Saudi Arabia was awarded under the long-term agreement with Saudi Aramco. This conventional shallow-water project which we're executing in consortium with Larsen & Toubro was our first award under the LTA since acquiring ECS last year. We see future opportunities in the coming quarters. We were also awarded an IRM contract in the Caspian Sea offshore Azerbaijan. This is a region that we have not been present in for some time and this long-term contract further expands the diversity of our portfolio of projects worldwide. Momentum has continued into the second quarter with the announcement of another two awards in April.

The PUP offshore project Nigeria is a shallow-water conventional project and is the first new project to be awarded in this country for some time. Local presence was a key differentiator for this project and it will be executed by NigerStar 7, our Nigerian joint venture. The Alligin project offshore UK is a two-well tie back project for BP which will use pipe-in-pipe flowline systems.

Turning to slide 9, we are confident in the long-term outlook of offshore energy. Our strategy is to develop our presence in key markets worldwide. We have already made good progress on this through counter-cyclical acquisition and investment in organic growth. Before I hand over to Ricardo, I would like the opportunity to discuss our announcement on Monday of our interest in acquiring McDermott on its own. We see compelling industrial logic for the combination of our complementary businesses, consistent with our growth strategy. We believe that together, we could create long-term shareholder value through our strengths and capability, highly visible synergy and expanded global reach. We released our interest yesterday and we want to confirm that our proposal is still open. And that even if McDermott is not in a position to engage directly at the moment, we are ready to hold discussion if circumstances should change.

And we'll talk about the outlook later on. But first I hand over to Ricardo to cover our financial results.

Ricardo Rosa

Thank you, Jean, and good afternoon everyone. Let's first look at the income statement highlights on slide 9. First quarter revenue was \$809 million, 10% lower compared to the prior year quarter with lower activity levels in all three business units. Adjusted EBITDA was \$103 million, 60% lower year on year. As previously guided, we anticipate a significantly lower adjusted EBITDA percentage margin for the full year compared to 2017. This, due to a reduction in offshore activity levels, fewer large projects in the final stages of completion and lower margins on projects signed in the downturn, partly offset by a continued cost discipline and risk reduction through good execution. Our first quarter EBITDA percentage margin of 13% reflected these trends and was also impacted by seasonally-challenging weather that affected our activities in the North Sea. We expect the second quarter to be sequentially better than the first quarter. Net loss of \$18 million included a tax credit of \$12 million and resulted in a loss per share of \$0.03.

Slide 10 provides more detail behind the income statement. Administrative expense of \$74 million increased from the prior year quarter, mainly as a result of increased resources assigned to tendering and certain restructuring charges relating to acquisitions made in 2017. As our guidance indicates, we expect administrative expenses to reduce in future quarters. A net loss from joint ventures and associates of \$7 million resulted from the settlement of a historical payable owed to Subsea 7 by one of our joint venture companies and is not expected to recur. Other gains and losses included a \$22 million charge related to foreign currency movements due to a 28% devaluation of the Angolan kwanza against the US dollar and dollar weakness against European currencies in the quarter. We reported a tax credit of \$12 million in the quarter which included certain discreet items. Excluding these, the underlying effective rate was 26%, in line with our guidance for the full year.

Slide 11 shows the revenue and net operating income by business unit. In our SURF and Conventional business units, first quarter revenue of \$584 million was down 3% on the same quarter in the prior year. Our fleet of PLSVs offshore Brazil achieved high levels of utilisation and good progress was made on most projects. TVEX in the US Gulf of Mexico and OCTP SURF in Ghana neared completion and Hasbah and 4 Decks projects offshore Saudi Arabia were close to 50% complete.

SURF net operating income of \$13 million was significantly lower compared to the prior year quarter. The lower profitability reflected fewer projects in the final stages of completion, underlying margin pressure driven by lower pricing on new awards and lower offshore activity levels which were exacerbated by the seasonally challenging weather in the North Sea.

i-Tech services revenue was \$52 million, down 32% compared to the prior year period with lower levels of ROV support and inspection repair and maintenance activities reflecting the market environment and clients reduced investment in preventative maintenance. Net operating loss was \$4 million for the quarter.

Renewables and heavy lifting generated revenue of \$173 million compared to \$220 million in the prior year period. Revenue was generated mostly from the Beatrice and Borkum II wind farm projects. The net operating loss of \$4 million was partly due as expected to the slower progress on foundation installation offshore UK during the winter months.

Slide 12 summarizes our cash position and the main cash flows reported in the quarter. Our financial and liquidity position remained strong. At the end of March, we have \$1 billion in cash and debt of \$277 million. In addition, we have continued access to a non-utilised revolving credit facility of \$656 million. In the first quarter, we generated \$6 million in cash from operations. Adjusted EBITDA of \$103 million was partly offset by our \$60 million decrease in the net operating liabilities due to the timing of payments on certain last projects and by \$23 million paid in tax.

We expect working capital movements for the full year to be broadly neutral. Although, volatility is anticipated on a quarter-by-quarter basis. Our capital expenditure in the quarter was \$78 million including \$19 million in our new-build reel-lay vessel of which the first steel cutting commenced in the quarter. We invested \$24 million in acquisitions mostly related to the investment in a majority stake in Xodus, which is enhanced that early engineering capability. Xodus will be operated as an independent company, being equity accounted for, will not be consolidated in our financial statements.

Slide 13 shows we have established priorities for available cash. Firstly, we will continue to invest in strengthening and growing our business. Secondly, we will maintain an investment grade credit profile. And lastly, we will return any surplus cash to shareholders, through special dividends and shared buybacks.

In addition to investment made in the first quarter, we have reported some material post balance sheet items. In the start of April, we have spent about \$8 million dollars on the repurchase of 675,000 shares under the authority of our existing repurchase program. Our activity was driven by our liquidity position and outlook accompanied by a dip in our share price during the period of market volatility.

On the 10th of April, we've completed the acquisition of Siem Offshore Contractors or SOC and the two related vessels for an initial cash consideration of approximately \$170 million. SOC will be consolidated in the group financial statements as a wholly-owned subsidiary.

On 17th April, the shareholders approved a five Norwegian kroner special dividend, which will be paid in May with the cash outflow approximately \$210 million. Including this dividend, Subsea 7 will have returned close to \$1.5 billion to shareholders since the combination in 2011.

Slide 14 states financial guidance which been updated to reflect the acquisition in April of SOC. We continue to expect revenue in 2018 to be broadly in line with the revenue reported last year and adjusted EBITDA percentage margin to be significantly lower. Administrative expense is now expected to be between \$260 million and \$280 million, \$10 million higher than previously guided partly due to re-structuring cost and increase tendering activity.

Net finance cost guidance is unchanged and is expected to be no more than \$5 million. Depreciation and amortisation is forecast between \$420 million and \$440 million, increased by \$10 million and includes the charges related to the recently acquired vessel.

Our full-year tax guidance is unchanged with the effective tax rate forecast between 25% and 27%, in line with the underlying rate for the first quarter.

Capital expenditure for the year is still expected to be between \$250 million and \$300 million and includes approximately \$150 million to be spent on the new reel-lay vessel.

Jean Cahuzac

Subsea 7 is a specialist offshore contractor to the energy industry. Our expertise and experience includes project managing, engineering, planning and executing projects in all the major offshore energy locations. We have a wide range of offshore capabilities, including pipelay and construction in addition to diving, heavy lifting and ROV services.

We are a strategic partner to our clients on renewable energy development as well as oil and gas fields. Our track record is safe and reliable execution supports long-term collaborative relationships. We are enabling and cost-effective technology which unlocks projects that might otherwise be impractical or too expensive to execute. This product differentiates us and helps us doing work.

Projects have certain attributes that can impact the duration, complexity, scale and value of our awards such as water depths, region, market condition, scope and technology, to name a few. For instance, a project in a remote location with challenging seabed topography and soil conditions may be more costly, even if the length of flowline or number of Christmas trees are relatively low.

Likewise, any big project with a high proportion of procurement and fabrication, will be significantly larger in size than a transport and installation project. Although, the vessel offshore campaigns had been similar.

We have over 150 jobs and projects in our backlog today, some small and some large. The diversity of this work and the scale of our worldwide operations enable us to schedule our onshore and offshore operations efficiently, maximising our profitability and enabling us to tender more effectively.

When we bid for new work, each project's risk, value and contribution is assessed independently but it's an incremental impact on our portfolio is also important and influence our decision on the level of acceptable margins.

Today pricing on new awards remain challenging. But as we look ahead to our recovery in offshore oil and gas activity, we expect this to improve.

Turning to slide 16, there're two charts, sourced from Rystad, illustrate the market trends for oil and gas activity. Capital expenditure approvals by our clients reach trough in 2016. In 2017, we saw the first signs of recovery as lower project costs and the higher oil price encouraged project sanction.

Looking ahead, we continue to expect a gradual recovery in market activity which is around 70% of non-sanction offshore resources breaking even, at a \$50 to \$60 oil price. These forecasts are encouraging and are backed up by the conversation we are having with our clients who are keen to capture the benefits from lower priced supply chains and supplier availability at this point in the cycle.

Moving on to 17, I will conclude with our view of the outlook for market awards by business unit. Starting with the SURF and Conventional outlook. We continue to see positive momentum on tenders for our large gas developments, including the Mamba and Golfinho projects offshore Mozambique, so the Gorgon Phase 2 projects of Australia and the 98/2 project offshore India. The 98/2 project has invited tenders on an integrated SURF and SPS basis, and we are building this together with OneSubsea.

In the North Sea, we have seen a good level of activity mostly on tie-back projects, some of which can be enabled by our pipeline bundle solution and also heated pipe technology. So, awards to market this year are likely to include the Penguins project for Shell and the Buzzard project for Nexens both offshore UK.

Offshore Brazil, tenders for the first Libra project Mero has just been issued to market. This project requires bespoke steel catenary riser technology due to the pre-salt water depth and corrosive production. The outlook for West Africa is slowly starting to improve. The Zinia project offshore Angola is expected to be awarded to market soon and our recent award of conventional work offshore Nigeria is encouraging.

Conventional projects tendering activity is also going well in the Middle East, in Saudi Arabia where we benefit from an LTA and also in Qatar. Renewables and heavy lifting tendering is ongoing for transport and installation activity for both renewables and oil and gas, as well as EPIC wind farm projects offshore Europe, Taiwan and the US.

For i-Tech services, tendering is focused on IRM activity in the North Sea and the Gulf of Mexico, as well as our drill support in the North Sea and Asia.

To summarize, as we look ahead, we remain confident in a gradual market recovery. Pricing on new awards is still competitive but I'm confident that our cost discipline, enabling technology and strong relationship with clients and partner will help us to achieve at least our fair share of markets award.

Ricardo, John and I will now open the call and take you questions.

Q & A

Amy Wong

Good afternoon. I had a couple of questions please. The first one relates to your bidding strategies. Good to see orders piling up in the corner here, but are you starting to build some cost inflation into your tendering yet when you're looking at 2019, 2020?

And then my second question relates to your dividend. Subsea 7 has always had a fairly shareholder friendly capital return policy, but as you are looking into a big acquisition, can you just give us some idea whether you would also consider formalising a dividend policy to give your shareholders a bit more guidance there? Thank you.

Jean Cahuzac

Thank you, Amy. Regarding the bidding strategy, I think what we shown – through the years is that Subsea 7 takes a very prudent approach when actually tendering the jobs and we haven't changed that so obviously when the market shows a gradual recovery, making some assumptions in terms of cost inflation is part of this prudent approach. And when we bid jobs for the long term, that's what we take into account. Ricardo, do you want to take in?

Ricardo Rosa

Yes, good afternoon, Amy. As you know, Subsea 7 traditionally has always indicated that all dividend distribution are special dividend distributions. We have not as a company committed ourselves to a regular – a policy of a regular dividend. And we do this because we have essentially three priority. The first one is to continue to reinvest in the business for growth. We want to maintain an investment grade credit profile, which we believe provides us with a profile that is attractive to our clients and gives us a certain competitive advantage as a result. And lastly, we will return cash to shareholders. So, each year we evaluate our cash returns in the light of the first two priorities and we do that bearing in mind that we do operate in a volatile industry.

Robert Pulleyn

Thank you, gentlemen. Lots of questions but I'll limit it to three. So, the first one if I can regarding the margins is we're all trying to interpret exactly what significantly low amidst '18. So the margins in the first quarter seasonally, we get 12.7. Is that indicative for the year or should we see a seasonal pickup in which case consensus at 18% is okay? Of course, that would imply the rest, the remaining 9 months of the year would be about 19.5%.

The second question is, that you sell another and highlighted for the downturn and McDermott has been quite aggressive in its bidding. So how comfortable are you with that back log as you approach them for, obviously this combination? And also, in terms of working capital that working capital has increased from 2% of sales to run about 12% or you come to with a balance sheet risk there?

And then finally, if I can just send on the slide that Jean talked to, slide 16, it shows some pretty fantastic expectations for a market activity yet the sanctions year-to-date by late April are pretty thin. Could you may be talk to why the volume of sanctions in that opportunity set is not larger? Thank you very much.

Jean Cahuzac

Yeah, a lot of question there, Robert. Let me try to answer. I mean, regarding our guidance, we haven't changed our guidance to what we committed before. If we are not happy with consensus, we would say it and we think that Q2, Q3 will be better than Q1 and we will see some seasonal effect in Q4. So, no surprises there.

Regarding our proposition for McDermott, as you can imagine, I cannot comment in detail at the stage as where we are. I would just say that we know the business pretty well. We know what – we believe that we know what McDermott has been doing on a number of project that we bid it ourselves. I can tell you that the combination of the two companies allows to execute the project by mitigating the risk and the size of what we are doing will bring some efficiency there. I cannot comment on financial business results of McDermott at this stage.

Regarding the timing of project awards to the market, we are definitely seeing an improvement there. In the future, we have more visibility with the timing, more tenders, and we expect more projects to be awarded to market in the quarters to come.

Robert Pulleyn

Okay, thank you very much for the rest of that. And just on that slide here to follow up, but why haven't the awards thus far been higher? We're about a third in the way through the year, and that opportunity says it's not really been eaten to it. Is this something oil companies, your customers are waiting for?

Jean Cahuzac

I think the timing of the award is, as what I'm saying, in line with our expectation.

Robert Pulleyn

Okay. Well, I'll turn it over. Thank you.

Jean Cahuzac

We're not surprise and we're not disappointed.

Robert Pulleyn

Thanks so much.

Kévin Roger

Hey, good afternoon everyone. Three questions on my side, please. The first one is related to the i-Tech services business because this largely based on the day rate basis. We have seen over the past two quarters a net operating income margin close to minus 7%. How should we think about the next quarter based on the day rate and you should have quite good visibility on that?

The second question is related to the provision. We had a strong increase this quarter by run \$100 million, if you can explain it, please? And last one, on the Beatrice project, if you have some of that for us related to the discussion on the extra cost that you recognised in Q4 with the client.

Jean Cahuzac

Yeah, I will take the question on i-Tech, Ricardo will take the question on provision, and John will answer on Beatrice.

Regarding the i-Tech services, I mean, we are seeing additional volume of activity, but there is pressure on margins which are been there for a while but more activity but still pressure on margins. Just as a reminder, we have announced the intention to create this joint venture with OneSubsea Schlumberger which will be going to bring i-Tech services and the IRM on both sides that OneSubsea and our side to the next level driven by technology and enormous stuff. So, i-Tech business is challenging today. It's one of the business line of Subsea 7 which for me is quite promising on the medium to long term through the joint venture with Schlumberger. So, I see our future there. Regarding the –

Ricardo Rosa

With regards to provision, Kévin and good afternoon, with effect from the first of January this year, we implemented IFRS 15. And as result of that, we have reclassified our onerous contract provisions that be approximately \$90 million from current contract liabilities to other provision in the balance sheet. All of this, we've discussed that reasonable length in our 2017 annual report and we also refer to it in note 3 in this quarter's condensed financial statements. So, if you need to know more about that, I suggest you have a look there.

John Evans

And Kévin, just on Beatrice, so we are halfway through the offshore jacket installation, so just over 44 at the moment being installed. As you might have seen in the press of the fabricated that had some financial difficulties in quarter four Bifab in the UK now has new ownership, has been secured. So, we feel pretty comfortable that their work is going well for us as well. The other two fabricators are doing okay for us.

Coming to your question regarding the discussion about the variation about the re-sequencing of the work of that is underway, but I do expect that to take quite a few months for us to reach conclusion with the client's latest on that one.

Kevin Roger

Okay, very clear. Thanks a lot.

Ricardo Rosa

Overall comment, I mean, the Beatrice project is doing well.

Operator

And next question is from the line of Frederik Lunde from Carnegie. Please go ahead. Your line is open.

Frederik Lunde

Thank you and congratulations on a very successful strategic development last year. And on that note, I'm not sure if you can answer this, but will you expect to make any moves before the AGM on McDermott next week or is that kind of the next event that we'll expect the news on?

Jean Cahuzac

Well, I think as you can imagine we're not communicating on our strategy there. I think we expect the rationale of the proposal. We think that's all I can say. I would say that Subsea 7's priority is to invest on new business. But at the same time, we are very cautious on the investment that we make. We make investments when it makes sense.

Frederik Lunde

Great. And also, can I get some more clarity on what assets you will put into the joint venture at Schlumberger?

Jean Cahuzac

In fact, the assets – I mean, we are putting the ROV on i-Tech Services. But the Subsea 7 vessels stay with the parent company, stays with Subsea 7. And will be chartered to the life of field vessels, to the life of field business with Schlumberger, an asset light joint venture. And we keep control of our fleet which gives us more flexibility and make it more comfortable.

Frederik Lunde

Great. Thank you and good luck.

Anne GjØen

Thank you. I got a couple of questions. Firstly, when it comes to seasonal quarterly differences for the rest of 2018, could you indicate, for example, how much you expect the vessel utilisation to increase within second and third quarter compared to what we have seen so far? And secondly, when it comes to the corporate segment, is it possible to give some indication of a fair run rate overtime in corporate EBIT? Thank you.

Jean Cahuzac

John, do you want to take the first question?

John Evans

Yeah. So, what we're seeing in the market today is the return to the seasonality we saw five to six years ago where the North Sea was relatively quiet in quarter one and quarter four. It's really, really straightforward that, you know, the weather conditions are particularly extreme in those periods, and therefore then, clients are not looking for their work to be performed during those periods. During the high point in the market, we work right away through those periods and clients were prepared to pay the additional cost to get their first production online faster. Our aim is that we will see in quarter one and quarter three our active fleets and we'll be back towards a reasonable level of utilisation in line with previous percentages for active fleet utilisation. But then we expect to see again the corner of sea market going relatively quiet in quarter four. So that's what we really see and in terms of seasonality for us. Ricardo?

Ricardo Rosa

Yes, good afternoon. And regarding to your question on the corporate segment, the way you should think about it is that, in general, the impact on the consolidated groups result should be virtually nil. However, in corporate we do tend to – we do have the results of the discontinued joint ventures support our ACGs, so to the extent that there is movement there, it will be reflected in corporate. And in addition, if we have unusual restructuring charges, we will occasionally take – we would normally take those charges at corporate level along with any impairments of goodwill. I think that helps you future modelling.

David Farrell

Hi, there. Two questions from me. Jean, you talked significantly about pricing pressure in your prepared remarks. Obviously, your second quarter and third quarter margins will be up. But do you think that as the current, the older awards roll off in 2018, we should really think about continued margin decreases into '19? And if that's the case, what can you do to offset that from a kind of corporate angle in terms of cost savings?

My second question relates to the phasing of work. It looks like about 44% of what you've won in the first quarter is actually for execution in 2018. Is it kind of historic backlog coverage levels that we kind of use to forecast revenue going forward? Is that changing so that you actually need less work upfront because actually more of the work is happening in the next couple of months of the projects that you win?

Jean Cahuzac

Yeah, a little comment on the pricing pressure and I will let John comment on your second question.

I think what we are seeing today is what we were expecting to see last year. I mean, a gradual increase of activity, increase of the number of tenders and you need to reach yourself on a level before you actually see a change on the margin for the short to medium term jobs. So, I think the – regarding the pricing pressure, we see it – we still see it today in particular for the short to medium term jobs. When we look at longer term job, we actually take into accounts our view on an improvement – improved market in the future, and that's how we price the job. There are jobs today where we go on very low margins, and in some cases, cash objective to optimise the fleet's utilisation in particular during the winter period in the North Sea.

John Evans

I guess answering your question about the type of projects we get. If you look at where we are today against consensus as a sort of testing place, we're about 90% covered for '18, so we feel reasonably comfortable with our '18 and we're about a third covered for '19. I guess the mixture of work, EPCI contracts generally have a much longer running periods because we are responsibly engineering procurement as well as the execution of the work. So, those projects would be more towards 2020 execution. Some of the transport and installed contracts where the materials and engineering had already been done will be on a shorter

fuse, and therefore, will be more likely to be done in '19. So, it's the type of projects that mean will have slight increase in terms of execution period.

Jean Cahuzac

I think I didn't answer one part, which was the cost savings. I think we, today, are at a point where we have reduced the size of organisation to size it to the forcing operation. We kept the expertise and that's absolutely key for me. The future cost saving will be through even further optimisation in the way we work to lower the cost of the project and that will have an impact on the bottom line. Efficiency and differential ways of working and particularly in partnership with some of our clients will trigger cost saving in the way we execute the project, and therefore, have impact on the bottom line. That's where I see it.

David Farrell

Okay. And just a quick and final question in terms of the McDermott takeover. Have you been surprised about how attractive to clients McDermott's the Baker Hughes offering is? So, is it kind of one of the strategies here to take out one of your key competitors from an integrated perspective and really leave it to yourselves and TechnipFMC to dominate that market.

Ricardo Rosa

I mean, the way we look at this combination is how to improve our business and be more efficient. I mean, there is – we're not doing that to take in competitors out off of the market. We are building Subsea which is more efficient, and therefore, bring additional advantage.

I think we need to move to the next question.

Mark Wilson

Hi, good morning gentlemen. Quite some interest this morning on the market outlook slide you show on slide 16. So, I'd like to ask your perception on that profile given that oil was sitting at \$75 a barrel. Would you think those projections miss in terms of the dollar amount of sanction project that can come? I mean, compare to 2011-2013 the idea of the amount of sanctions being higher than that, do you feel projections missed the cost deflation that is coming through given the high number it shows on that projection with a higher than \$60 projection? Thank you.

Jean Cahuzac

I think what – the reason – when we showed these slides it was actually to show the breakeven point for this project to be sanctioned. We are completely unable to predict the price of oil, but what we are saying here is that at \$50, \$60, we see a significant number of project which can be sanctioned. And I think the sanction today reflects the oil price journey and confident that the operator have on the evolution of the oil price. I think the decision of the operator today are based on the prudent approach on oil price that can be offsite, compared with this scenario.

Mark Wilson

Thank you for that comment and then just a small point just to check the Siem Offshore acquisitions spend, that is outside of the CapEx guidance for this year, please?

Ricardo Rosa

That is correct, Mark.

Victoria McCuller

Hi there, thanks very much, there's a couple left from me. First of all, is there any impact from the proposed McDermott acquisition on the OneSubsea joint venture, and maybe more interestingly, have they expressed an opinion to you on this, whether you say which way it is?

And secondly, maybe following on from Rob's question, on the outlook for contract work you're bidding on at the moment, is this more 2019, 2020 longer term EPCI opportunities or are there still a near term opportunity coming across the work?

Jean Cahuzac

I think on the second question, is both. And we are seeing more short term, and longer-term projects or opportunities in line with our expectation, regarding the impact of the McDermott combination, if it was to

happen, the conventional water, shallow water, is not part of the joint venture with Schlumberger. No subsea operation there, and everything else is compatible with what we had agreed in the past with Schlumberger. So if any impact, positive, but no negative impact.

Victoria McCuller

Okay. Have they reached out to you on this at all?

Jean Cahuzac

We are not discussing that with anybody there.

Nick Green

Good afternoon, thanks for taking my question. Jean, you said a few minutes ago, we make investments when it makes sense and currently, the McDermott proposal, it would be appear to be a trade off between fairly materially margin dilutive acquisition in return for a larger order book, and some geographical diversity. Can you please set out why is that a good trade-off for your investors?

The second question relates to Brazil, it would appear to be that you're invited to bid in the Mero SURF tender from Petrobras. Now, you had said after Guar-Lula, that you weren't keen on doing lump-sum projects in Brazil, ever again, actually on those terms. Can you please just clarify for us, are you willing to be bidding in Brazil on a lump-sum contract basis? Or do you retain your previous position which is that you wouldn't enter that market on that basis again? Thank you.

Jean Cahuzac

I'm going to start with Brazil. I mean we've seen an improvement from the terms and conditions with Petrobras. We are comfortable with that. If we ought to evaluate on a given project that the commercial – the operational risk and the commercial risk was not acceptable, we would not bid. But today, we see things going the right direction with open discussion with Petrobras. So, we will not increase our risk profile in Brazil in the future. But we believe that with our risk profile, we can win work there.

Regarding the McDermott, I don't want this call to become a McDermott discussion, what we are saying is that, when we look at the potential acquisition, what we start to look at is, is it in line with our long-term strategy? And we have different way to achieve this strategy, you've seen that we'd been successfully stopping in Saudi Arabia and the Middle East that's one route, a combination with McDermott, we believe, could be an advantage for both shareholders group, and that's why we took something that we've been proposing, and considering. But I can't elaborate more at this stage on numbers. I think it's not really the time at this stage of the discussions. I think we need to move to the next question.

Haakon Amundsen

Yes, hello guys. Two questions from me please. First of all, I'm just wondering if there is anything back log in terms of terms that has changed which give you more weather risk or more exposure to the seasonality, for example what we saw in Q1. And secondly, if it's possible on the McDermott potential combination, is the entire McDermott business portfolio what would you consider kind of core growth for Subsea 7, or are there areas which you would not characterise as core for Subsea 7? Thanks.

Jean Cahuzac

Talking about McDermott, and again, I don't want to elaborate too much on this possible combination. What we are talking about –what we would be talking about, if it was materialised, would be only the McDermott business, not the CB&I acquisition if it was to happen, that would not allow us to go ahead.

Regarding the back log, I think one of thing I'm very confident with, is that during the downturn, we've kept our prudent approach and maintaining the right risk on every job, we haven't changed our philosophy, and we evaluate this risk on season and weather on a project by project basis in a prudent way. I don't see that our risk profile has increased. And I think we can take the last question.

Michael Alsford

Thank you, I've just got two questions to finish off please. Just firstly, following up, I guess, on Ricardo's comments on the balance sheet and maintaining an investment grade, credit rating.

I guess before McDermott, I was of the view that you would always sort of stay with a very healthy net cash

position on the balance sheet. And now I'm a little bit unclear.

So, I'm just wondering absence of McDermott, where would you be comfortable running the kind of the balance sheet over this medium term, should we say it's just all be a decent net cash position, or actually could we see you even moving towards a more net debt position? I guess I'm just thinking in the context of potential returns to share-holders.

And then just secondly, on utilisation, apologies if I missed it, but I just wonder whether you can give us a bit of indication fleet that utilisation was what 58%, in Q1, could you give us some sense as to where we should see that coming in to second quarter, and third quarter?

I'm just trying to understand what was seasonal and what was more environment.

Ricardo Rosa

Michael, I'll touch on the first question for you. With regard to where we are, as you know, an indicator we are on a strong net cash position at the moment, but I guess the way we look at it is, we have a certain amount of cash that we need for operating our businesses and working capital, if you will, and a proportion as well which we allocate for strategic opportunity, because as I indicated earlier, our main priority is reinvesting in the business for growth.

I do want to clarify, we don't have a credit rating as such, we have an investment grade profile, and that investment grade profile, would allow us, should we want to, to raise additional debt, whilst not in any way, undermining it.

I'm not implying by that – I'm not imply by that, that we intend to raise debt in the short term, for the purposes of returning cash to shareholders. As I indicated earlier, it's one of our three top priorities but it is the third and we don't have any plans to change that approach.

John Evans

And regarding your question, regarding utilisation, I think I answered the question to Anne Gjøen earlier, but I'll repeat again, quarter one and quarter four, we expect to see the effects of the North Sea seasonality coming in to our fleet utilisation. We do expect quarter two and quarter three to be getting back to more of the average utilisation for our active fleet and we are seeing that take place today.

Jean Cahuzac

So with that, we like to thank everybody to – for the participation to this call, and looking forward to talk to you again at the next earning call.

Again, at the end of Q1, we are on track of where we want to go, and that's all I have to say at this stage, I think. It's working well. Thank you.