# SUBSEA 7 S.A.

## Quarter 1 2015 Results Transcript

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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:** Welcome, everyone, to this conference call and webcast covering our results in the first quarter 2015. Here on the call with me are Jean Cahuzac, our Chief Executive Officer; Ricardo Rosa, our Chief Financial Officer; and John Evans, our Chief Operating Officer. The full press release of the results can be found on the Investor Relations section of our website along with the presentation that we'll be referring to on today's call. In a moment, I'll hand over to Jean to open the call, but before I do, I am obliged to draw your attention to slide number two, which contains important information regarding the forward-looking statements. A similar disclosure is also provided in the press release. I'll now hand over the call to Jean.

**Jean Cahuzac:** Thank you, and good afternoon everyone, and welcome to our first quarter conference call. In a moment, I will summarise the key financial and operational highlights before handing over to Ricardo, who will cover our financial results in more detail. I will conclude with our view on the market and the outlook for our business in the year ahead before opening up the line for your questions.

Firstly, however, I would like to thank our shareholders for voting at our Annual General Meeting and Extraordinary General Meeting, both held on the 17 of April. All resolutions were passed and the minutes of the meetings are available on our website.

Let's move to slide four, Q1 2015 highlights. Subsea 7 has started the year well. Revenue was $1.2 billion in the quarter, reflecting the seasonally quieter winter period in the Northern Hemisphere and fewer projects in the offshore phase compared to the same period last year.

Adjusted EBITDA of $281 million was up 6% year-on-year, resulting in a 24% margin. This includes a further reduction in the full-life loss related to the Guará-Lula project offshore Brazil and was helped by project phasing, good project execution and cost management discipline.

Net debt increased during the quarter due to movements in working capital and payments for our new-build vessel program, which is progressing as per plan. We continued executing our $200 million share repurchase program although at a moderate pace.

We achieved 68% vessel utilization in the first three months of the year, in line with the level we reported for last year fourth quarter, with higher utilization in Brazil, offset by lower activity in the North Sea.

In an overall challenging market, we have already made good progress in reducing costs to better align our business to lower activity level and we will continue to implement further cost reduction measures in 2015.

We booked approximately $1 billion of new awards and escalation in the quarter, taking our order backlog at the end of March to $7.6 billion after adjusting for negative foreign exchange impact of around $400 million. Early April, we signed a two-year PLSV contract for Seven Seas with Petrobras in Brazil. This will be reflected in our second quarter reported backlog, which will be announced at the end of July.

I turn now to slide five to look at our operational performance in more detail. Starting in the Northern Hemisphere and Life of Field Business Unit, we have made good progress on projects, including the Knarr project in the North Sea, which is now substantially completed. Life of Field activity was subdued, as clients spend less on spot work in the seasonally slower winter months.

Project phasing and a reduction in short-term contract activity resulted in lower vessel utilization, particularly for some of our diving vessel in the North Sea.We took this opportunity to execute planned maintenance, modification and dry docking of various vessels to ensure availability in the peak season.

In Southern Hemisphere and Global Projects Business Unit, we have made significant progress on various projects; including the Lianzi SURF and Topside projects offshore Angola and the TEN project offshore Ghana. We also achieved a high level of vessel utilization for our PLSVs in operation for Petrobras in Brazil, with fewer days spent in planned dry docking compared to the previous quarter. Some of our larger projects are nearing completion. The phasing of these projects and good execution contributed to the improved adjusted EBITDA margin this quarter. This included, as I mentioned before, the impact of a $29 million reduction in the full-life loss of Guará-Lula as the project now is in its commissioning phase continued to de-risk.

Moving on to slide six to look at our backlog. We have a solid base of work with an order backlog of $7.6 billion as of quarter end. This included $2.5 billion related to the long term PLSV contract we have in place for 10 vessels with Petrobras in Brazil. $3.1 billion of the backlog relates to work we expect to execute over the remainder of this year. Subsea 7 is competitively positioned and our expertise and experience wins us a fair share of the available work across the business cycle.

In the quarter, we announced awards from Shell in the UK North Sea and Woodside offshore Australia. Other addition to the backlog included fabrication work for Sonamet in Angola, the tie-back project for the Korea National Oil Corporation and the Viper-Kobra project offshore Norway.

Our i-Tech division has also been winning new work and so has our non-consolidated joint venture, Seaway Heavy Lifting, although awards for the latter are not included in our reported backlog. We're actively participating on a number of significant tenders, but the timing of new awards to the market remains highly uncertain. I will talk more about the market and outlook later on, but first I will hand over to Ricardo to talk about our financial performance in more detail.

**Ricardo Rosa**: Thank you, Jean, and good afternoon, everyone. Let's first look at the income statement highlights on slide eight.

First quarter revenue was $1.2 billion, down 29% from the prior year period. Both business units contributed to the decrease, which reflected lower activity levels offshore and the negative impact of the U.S. dollar strengthening significantly against the Norwegian kroner, British pound and Brazilian real.

Adjusted EBITDA at $281 million for the quarter improved $17 million or 6% on the fourth quarter of 2014, despite the decline in revenue. This largely reflected satisfactory progress on certain projects that were approaching completion. Good execution can result in enhanced margin recognition toward the end of a project, driven by reduced costs, mitigation of risk and associated contingencies, and constructive commercial settlements with clients.

Net operating income at $176 million was 10% higher than Q1 2014, reflecting the improvement in adjusted EBITDAand the fact that depreciation remained in line with the prior year period. With net income increasing $20 million compared to the prior-year quarter and the weighted average shares in issue down $27.6 million, diluted earnings per share was $0.44, a comparable increase of 7%.

Moving on to the supplementary details of the income statement shown on slide nine, administrative expenses were $11 million lower than the prior year period, largely driven by reduced personnel costs as a result of measures we have been taking to lower our cost base. Net income from joint ventures of $15 million mainly reflected an improved contribution from Seaway Heavy Lifting, whose two vessels were active in the quarter.

Net finance income amounted to $2 million after capitalizing $6 million in finance costs associated with our new-build vessel program. Other gains and losses of $33 million mainly comprised unrealized net foreign exchange gains on functional currency movements against the strengthening U.S. dollar. Our effective tax rate for the quarter was 29% and net income of $151 million was up 15% year-on-year.

Slide 10 shows the revenue and net operating income by business units for the first quarter 2015 compared with the same prior year quarter. This is the first set of results reported under the new segmentation following our reorganization at the start of the year.

In the Northern Hemisphere and Life of Field Business Unit, first quarter revenue of $562 million decreased 16%, reflecting lower levels of offshore project activity compared to the prior year. Life of Field spot work was comparatively low in the quarter, particularly in the North Sea, as clients influenced by lower oil price levels, reduced offshore activity during the more operationally challenging winter months. This was the main driver for the fall in worldwide vessel utilization to 68% from an unseasonably high 79% in the prior year period.

Net operating income of $48 million was twice the level reported in the first quarter of 2014, which itself reflected the negative impact of costs incurred in executing the Line 60 and Line 67 projects with Pemex in the Gulf of Mexico and whose recovery we continue to pursue.

In the Southern Hemisphere and Global Projects Business Unit, revenue fell 38% to $617 million compared with the prior year period. This was mainly due to the relative stage of completion of certain major projects, whose offshore phases were being executed in the first quarter last year and which were close to completion or completed in the same period this year. Such projects included CLOV, Block 31 GES, Gorgon Heavy Lift and Tie-in and Guará-Lula.

Net operating income of $118 million for the quarter, although 22% lower than 2014, reflected a margin of 19%, a 4 percentage point improvement on the prior year period, helped by a $29 million reduction in the full-life project loss on Guará-Lula as the project neared completion.

Slide 11 summarizes our cash flows in the period. Cash and cash equivalents decreased by $200 million in the quarter and was the main driver for the increase in net debt to $288 million. Cash outflow is mainly related to milestone payments on the new vessel construction program and movements in operating assets and liabilities, the key elements of our working capital. Net cash used in operating activities of $78 million arose largely from the normal phasing of cash receipts and payments associated with lump sum projects rather than any delays in client collections.

As I mentioned during our previous earnings call in March, we are not expecting to maintain the same levels of negative working capital in 2015 as we achieved by the end of 2014. Our business model with its emphasis on lump sum contracting enables us to operate with negative working capital. And in the periods of lower activity, it is normal that whilst remaining negative, working capital may diminish, effectively resulting in a cash outflow.

Nevertheless, our financial position remains secure. In addition to our cash balance of $373 million, we can utilize our $500 million revolving credit facility, of which $420 million remained undrawn at the quarter end. We maintain a conservative stance on financial leverage, consistent with an investment grade rating. A major benefit of a solid balance sheet is that it gives us continuing access to various sources of financing and allows us to take a long-term view regarding our fleet renewal program and consider any strategic investment opportunities that may arise.

As shown on slide 12, investment in our new-build program was $139 million in the quarter, mostly consisting of payments relating to the Seven Kestrel, the new diving support vessel, and Seven Arctic, the new heavy construction vessel. Our program of investment remains on track and our expectation for approximately $700 million expenditure this year and $170 million in 2016 is unchanged.

Three of the remaining five vessels to be delivered under this program are under long-term contracts with Petrobras. We remain confident that these contracts will commence without delay once the vessels have completed their sea trials.

Slide 13 sets out our guidance for 2015. This is unchanged from the guidance we provided during our fourth quarter earnings call in March. We expect revenue to be significantly lower in 2015 compared to the record level reported last year. And although we see the benefit of our early action on costs, our adjusted EBITDA margin is still expected to decrease compared to 2014.

I will now pass you back to Jean to comment further on our continuing cost-reduction measures, the current state of the market and our outlook.

**Jean Cahuzac:** Thank you, Ricardo.

Let us turn now to slide 15. I would like to offer some comments on the market condition we are experiencing today and Subsea 7's position. The business environment remains challenging with reduced client spending driven by the lower oil price. The timing of new contract awards to market remains highly uncertain and tendering is increasingly competitive. In this context, we see pressure on margins, particularly on projects that are small or technically straightforward.

We are competitively positioned to win our fair share of awards, differentiated by the expertise and experience of our people and our innovative technology. This is especially relevant on large and technology-rich projects where execution is more complex.

We're also well-placed to help our clients lower the overall cost of deep-water development, which is key to helping them reach final investment decisions. For example, on several large projects, which are being presently tendered, we have been working with our clients and our suppliers to identify cost-effective solutions. Only a few companies in our sector can take this approach, as it requires large engineering resources, access to state-of-the-art technologies, as well as flexibility in resources and fleet management. This is a clear differentiator for Subsea 7.

Turning to slide 16. Our cost reduction program is making good progress and we'll reduce the size of our organization whilst protecting our capability. As we have previously indicated, we recognised a slowdown in client spending in late 2013 and prepared early for the reduction in activity. We reduced our head count to 13,000 at the end of 2014 and this trend has continued in 2015.

We are preparing to reduce our fleet size, commencing this year, in line with the projected decline in activity levels. We have identified up to 10 vessels comprising both chartered vessel, which can be released when their contract expire, and some of our older owned vessel.

Cost reduction measures are important to protect our business in the downturn and we are making good progress in aligning our organization to the lower activity levels. We have already seen a reduction in our head count level and personnel costs as a result of the actions taken so far and our fleet running costs are also decreasing.

As the year progresses, we expect to implement additional cost reduction measures. We will provide an update on this at our second quarter earnings call.

Retaining capability is core to our position as a top-tier service provider and our cost reduction measures respect this. We will continue to operate the modern, diversified and high-specification fleet announced by the addition of our new-build vessels as our investment program completes. We will also retain the core engineering and project management expertise that enable us to successfully execute large and technically complex projects and will position us very well when the market picks up.

Slide 17 summarizes our view on the near-term outlook.

In the Northern Hemisphere and Life of Field Business Units, mature field development in the North Sea has been particularly impacted by the low oil price, and as a result, there have been a limited number of market awards expected in 2015. We are tendering for the Maria project offshore Norway and there is a tendering activity on smaller awards in both the North Sea and the Gulf of Mexico, but the environment remains highly competitive. Life of Field activity is expected to increase in the second quarter, helped by the seasonal uptick as the weather improves in the North Sea, while i-Tech activity is expected to remain steady.

In the Southern Hemisphere and Global Projects Business Unit, there are still several large project awards under negotiation, although progress has been slow and the timing of awards remains highly uncertain. To give you some examples, some of the larger awards we have tendered for include the West Nile Delta offshore Egypt. BP is moving forward for this project and an award to market is expected a little later this year. Bonga South West offshore Nigeria for Shell is still under discussion, making progress, with a strong focus on lowering the overall cost of field development. Zinia for Total offshore Angola and Vashishta for ONGC in India are also projects which are under discussion.

To sum up, on slide 18, Subsea 7 has made a solid start to the year with growth in adjusted EBITDA, despite the difficult market environment, reflecting operational performance. The timing of new awards to the market remains highly uncertain. However, there is activity on tenders and we do expect some projects to make progress even at today's low oil price. The long-term fundamentals for deep-water oil remain intact and we would be ready to react when market activity picks up. In the meantime, we are preparing for cyclically lower activity levels. Our cost reductions measures are progressing well, as evidenced by our lower personnel costs, and we are taking steps to reduce the size of our fleet. Additional measures will also have to be implemented, and will be implemented while maintaining our core strengths and competitive differentiation.

To conclude, Subsea 7 is a leading oil service provider with top tier capability. Our expertise and experience enable us to help our clients find and execute the right solution at all points in the cycle.

And now, Ricardo, John and I will be pleased to answer your questions.

**Operator:** Thank you. Our first question comes from Rob Pulleyn of Morgan Stanley. Go ahead, sir.

**Rob Pulleyn**: Good afternoon, gentlemen. A few questions, if I may. The first one, it was great to see the Guará-Lula loss reversal again. May I ask, should we be expecting any more of that to come as the project reaches complete conclusion, or is the state of the project now as is as you go through the commissioning? The second question I had revolved around working capital. Obviously, notwithstanding the guidance for working capital outflow this year, would you be willing to provide a little bit more colour as to how much more, given what we saw in Q1, that we should expect in the remainder of the year? And thirdly, if I may, in terms of the project close-outs seen in the first quarter, it seems like these are going better for you than your peers. Could you perhaps provide a little bit of colour as to how the negotiations around variation orders, contingency release and actually reaching the commercial close-out are actually proceeding for yourselves, as we've heard a lot about that from other oil service companies? Many thanks.

**Jean Cahuzac:** Well, thanks for your questions. I will ask John to give you an update on Guará-Lula; Ricardo, regarding the working capital; and I will take the third question on the project.

**John Evans:** Yes. Rob, as you mentioned that Guará-Lula is substantially complete. All the main construction work is done. We're in the commissioning stage as we speak here, but they are producing through a number of other risers in the field. So, for us, we take the contingency review and our view on the project and its profitability or where it'll be in terms of its final out-turn each quarter, in terms of where it's at. And as we liquidate different risks and conclude different things with our suppliers and our clients, we adjust at the end of each quarter. The main message is the bulk of the work is done, although we still have a small amount of commissioning work to do. And we then have to conclude our discussions with Petrobras, which we expect to be toward the end of this year before that's done.

**Ricardo Rosa:** Thank you, John. So answering your question on working capital outflow, Rob, what I would say is that this quarter, although directionally in line with our expectations, was somewhat higher than we had originally expected for a couple of reasons. I think the first thing was that we had some short-term timing adjustments to our milestone payments on our new-build vessel program and we also benefited in the fourth quarter last year from some very good collections from our clients, which significantly reduced our receivables. This year, they've trended up a little bit in the first quarter, which resulted in this relatively significant increase in working capital. Going forward, it's a challenging area to model exactly, but what I've highlighted is that we are not seeing any significant delays arising in our receivables with clients, and we're not seeing the need to provide any additional funding. And we take a very conservative approach, too, to recognition of revenues that are associated with any change orders, with the result that you're not going to see any sort of artificial increase on that front either. So, overall, we may see short-term fluctuations quarter-to-quarter. In fact, in Q2, we could actually see an improvement in our net working capital position, but I'm not expecting a significant reduction in our negative working capital position from what we're looking at today.

**Jean Cahuzac:** Thank you, Ricardo. And to answer your question regarding projects, as you can see there is no doubt that this market is seeing some severe headwinds and that the market is challenging. In today's environment, one thing I want to stress is that we haven't changed our overall approach when bidding. And what I mean by this is what is important in the tendering process is to manage the risks. So, we are not taking more risks on the terms and conditions that we should. And when we bid the job, we have a very thorough evaluation of the contingencies. It's independent of the pressure on the market. Where we have seen pressure, is on the margins, which obviously depends on the project, and in some cases, can be under pressure. But when we are bidding jobs, when we are putting numbers in the backlog, it's with the right risk profile and with the right contingencies. And it's very important to stick to this approach.

Regarding the results of Q1 and what you've seen, it comes from different factors. It comes from the fact that the execution in the quarter has been good and that results in impact on the bottom line. It also makes negotiation easier with the customer. When you deliver to their expectation or ahead of their expectation, things work better. But the other point also is that we've always been prudent in the way we recognize VOs. In our numbers of backlog or in the financial number that you see, there are VOs which have been approved, but we are not speculating on what will be the end of commercial negotiation, and we stick to a very prudent approach all the time. That means that we can expect less negative surprises from that perspective.

So, I think it's a combination of prudent approach, risk management, and a prudent approach on the accounting side in line with good practice. But again, in today's market, risk profile management is absolutely key and we will not compromise on that.

**Rob Pulleyn:** That's extremely helpful. Thank you very much. Maybe just one quick follow-up, hopefully, to John on Guará-Lula. If I remember correctly, you were hoping for a sort of recompense from certain components, which were slightly beyond your control. Have we now seen that in terms of the loss reversals, or what's the update, and is this going to materialize? Thanks again.

**John Evans:** As I mentioned to you earlier, Rob, we're in a series of discussions with some suppliers and we're in a series of discussions with Petrobras, and that will take until the end of the year until we conclude that. So we are looking at it on all fronts, concluding our own work, concluding our discussions with our suppliers and concluding our discussions with our clients. That's where we're at the moment and they're all moving at a pace.

**Rob Pulleyn:** Okay. Good luck. Thank you.

**Operator:** Our next question comes from Amy Wong of UBS. Go ahead, madam. Your line is open.

**Amy Wong**: Good afternoon. My question was related to your comments in the market outlook, where you're saying reduced market activity is impacting project margins, particularly around small-to medium-sized projects. I just want to get an indication of how these projects fit into Subsea 7's profile and will you be undertaking some of these projects, and how we should think about the mix in your revenues over the next year or two?

**Jean Cahuzac:** It's a very difficult question because it depends on the timing of the very large project, which obviously can impact significantly the profile of the portfolio of the contract. When we talk about small projects, what we are seeing, in particular in the North Sea, is some pressure on margins for the non-technical projects. What it will be in a year or two is very difficult to predict and definitely too early to put numbers to.

**Amy Wong:** Okay. Thank you very much.

**Operator:** Our next question comes from Jaideep Pandya of Berenberg. Go ahead, sir. Your line is open.

**Jaideep Pandya**: Just a couple of questions, really. First of all, if you just think about your current state of the industry right now, in your negotiations in early engineering work or project management, how much are you going to be more flexible with regards to using your balance sheet to, let's say, amend prepayment terms to make the project dynamics for your clients a bit more – a bit more attractive? My second question really is sort of around the competitive environment that you were saying. I mean, are you really seeing pressure on margins from competition across the board, or is it more aggressive competition from new players, and pricing for, projects for the top three, four competitors is more like it used to be? And then the final question really is a little bit more future-oriented. So, there have been some presentations around new technologies for flexible pipes based on carbon fibre and very high-end plastics, which seems to be game-changing. What is your take on this, given the fact that you are one of the players who is just a pure installer and not involved in flexible pipe business? Thank you.

**Jean Cahuzac:** Thank you. So, let me take the different point. Regarding using our balance sheet, to help our customers to launch projects, one of the points that we look at is a risk associated with the impact of the present market downturn, both on suppliers and operators. In terms of committing work to clients, in particular to the smaller clients, I mean we also need to be very cautious in making sure that there is the right guarantee on the payment side. In terms of financing the projects, the IOCs have more flexibility and access to capital on better terms than us, so I think it's their duty to actually finance the projects, not ours. Regarding the competitive environment, we are seeing pressure on margins around the world on the different projects. It's true that we have seen some smaller players being extremely aggressive on margins, but also very aggressive, in our opinion, on the risks that they are taking. And that's an area we wouldn't be going. So, yes, there is difference of approach between the different competitors.

When you talk about the larger projects, the one where we compete against Tier 1 or Tier 2 competitors, there are less projects. So there is some pressure on margin, but it's not to the same magnitude. Regarding the new technology, we are not a manufacturer of flexible pipe, but what we are proposing is solutions to the operators with all the technology available. And that's rigid pipe, flexible pipe and all the technology which are available. So we are in the business of engineering and project management of flexible pipe, with the operator buying the pipes from Technip or GE. So, we are in the business in that way, not only from an installer perspective but on a project management and engineering perspective. Regarding the new carbon technology, there are some prospects on the medium to long-term. Our technology group is, in fact, quite active with some of the carbon pipe manufacturers to understand how it will impact the market in the future, and we'll be ready for that. However, we are really talking long term. We're not really talking about what will happen in the next two, three years in a material way.

**Jaideep Pandya:** Thank you. Just a quick follow-up. The new contract or renewal of the contract that you had on Seven Seas, I think it was in PLSV. Can you just give us some qualitative information around it, is it the same level of margin or returns now in new pricing as your average for the group, or is it significantly below or above still? Some direction would really help.

**Jean Cahuzac:** We are not in a position to comment on a project-by-project basis. The only thing I would say on the Seven Seas that you need to be careful not to compare this contract with the previous Seven Seas contract, which included some lump sum work. So you can't really compare figures. But I'm not going to comment on each individual project.

**Jaideep Pandya:** Okay. Thank you so much.

**Isabel Green:** Just before we move to the next question, can I just kindly ask you if you can keep your questions brief when you get your opportunity to come on line and limit yourself to not too many questions and follow-ups so that everybody who's waiting to ask a question to get their chance? Thank you.

**Operator:** Thank you. Our next question comes from Andrew Dobbing of SEB. Go ahead, sir. Your line is open.

**Andrew Dobbing**: I'll try and limit it to two questions, then. First of all, you say you're going to be trying to get out of or you won't be renewing some of your charter contracts, the vessels that you rent in. There are some of those contracts where they might expire, but you have longer term contracts renting those out to clients in Brazil and I think on Life of Field work in the North Sea. Do you have an opportunity to basically not renew those contracts, but to use your own vessels on those contracts instead? That's the first question. And the second question, a little bit of a project-specific one, but I guess on the Gorgon project, there have been some pretty significant scope changes on that contract. On that contract, in particular, how successful have you been on collecting cash for some of those change orders? Thank you.

**John Evans:** On the charter vessels, on the longer-term contracts, we make sure that our charters are back-to-back with our main contracts, so we have them aligned. So if our main contracts don't get extended, then we don't need to extend the chartered vessels. Generally, these vessels are quite specific to a certain task, so we link those factors together. In terms of Gorgon, we're coming to the end of our offshore scope on Gorgon. It's been a very long and complex project for us, but we've performed throughout for Chevron, and I think they're very pleased with the work that we're doing. Chevron has a complex project to close out there, but we are in good dialogue with Chevron, and we don't see any major issues in getting that project duly concluded towards the end of this year.

**Andrew Dobbing:** Just a clarification on that first answer. If you're renting a vessel and you don't have to renew that and it expires in a year's time, but you've got a four-year contract with BP or Shell. I mean, could you let that contract expire, but bring in one of your own owned vessels to replace it on that contract, or would you usually renew the charter contract and continue to use the same vessel?

**John Evans:** No, we could. To answer your question, we could certainly switch them around if we wanted to.

**Andrew Dobbing:** Okay. Thanks very much.

**Operator:** Our next question comes from Morten Nystrøm of Nordea. Go ahead, sir. Your line is open.

**Morten Nystrøm:** Thanks for taking my call. Just a question on your 2016 backlog, which stands at $2 billion, and we're soon moving into the second half of 2015. If you could – how easy is it for you to build 2016 backlog, let's say, from August, September 2015 and onwards? I guess at one point we're talking about offshore installation not coming in before late 2016 or 2017. If you could provide some more colour on this aspect, that would be great?

**Jean Cahuzac:** It's difficult to predict 2016 at this early stage of the year. And as you know, the backlog will be a combination of smaller jobs, mid-sized jobs, which will be in operation in the second part of 2016 and also work which we'll see operation in later on. So, we will see in the coming month how it goes and we will comment a bit further and be more specific a bit later this year. Today, it's a bit too early.

**Operator:** Our next question comes from Nick Green of Sanford Bernstein. Go ahead, sir. Your line is open.

**Nicholas Green:** Hello. Thanks for taking my question. Nick Green from Bernstein here. I'm looking at slide 16 on your steps to reduce capacity. So you laid out a couple of steps that have been taken. I think a critic may say that some of these measures were in place prior to the current slowdown. I know you said in the Q2 earnings call, you will give a few more details on these additional cost cuts, but are you able to give us any steer on the nature of additional cuts? That's one question. And the second one attached to that is, do you generally feel you are acting quickly enough to cut costs in this sector, or do you feel you have, I suppose, time to assess whether the level of cost cuts that are needed? Thank you.

**Jean Cahuzac:** To answer to the second part of your question, we have projects to execute and we are continuing to have a high level of activity today, but we are finalizing the plan. We'll be more specific at the earnings call in Q2. And the only thing I can say is that we are acting in a timely manner on the cost reduction. It goes through the plan that we have alluded to on the vessels, it's a reduction of headcounts, but it's also restructuring of the company, continuing the implementation of the new organization that we already announced this year to be more cost effective and do the same work at a lower cost, spending less hours and simplifying our processes. I'm very pleased with the progress which has been made for the last 12 months in changing not only the costs in short-term, but taking measures and implementing new ways of working. We'll also change and reduce our costs in the long-term.

**Nicholas Green:** Lovely. Thank you. And then on page 15, you refer at the bottom of the slide there to focus on leveraging early engineering and technology expertise. Is there anything specifically that Subsea 7 is doing differently now than, say, three to six months ago? Or do you see this as an evolution of conversations you've been having in the last sort of 12, 24 months anyway, or was it something specific you're referring to?

**Jean Cahuzac:** No, I think we've always had a similar approach, which is to get involved at the early stage of some of the projects. What we are seeing is more demand from the customer to engage with us at an early stage to help them to lower the costs through pre-engineering, feed and proposing a new approach. So, we are spending more time on pre-engineering on a number of projects and, in fact, we are in active discussions with a number of operators on some ongoing tenders to define how we can jointly make these projects more viable. What is also very encouraging in this area for us is, while it takes time to come to conclusion, it's very clear that the operators are engaging with a limited number of service companies to achieve their goal of cost reduction. And Subsea 7 is one of the few who today is very active in this area and is definitely one of our key differentiators. So, yes, we are doing early engineering, early engagement, and willing to do more of it in the future. And I think we have very positive feedback on our capability and particularly on the Subsea and SURF feed at work.

**Nicholas Green:** Lovely. Thanks for your time.

**Operator:** Our next question comes from Kristian Diesen of Pareto. Go ahead, sir. Your line is open.

**Kristian Diesen:** Good afternoon. You were very clear on the risk profile and not engaging in any more riskier contracts, while at the same time you say smaller players are willing to take on more risk. And my take is also that your larger competitors are also of the approach that risk profiles change with the cycle. Hence, in a down cycle, we need to take on somewhat more risk, and in an up cycle, you take less risk.

Would you say that that is partly due to, or the reason why you've been lagging on order intake recent quarters?

**Jean Cahuzac:** When I talk about the small competitor, I'm not saying that all the small competitors are taking unacceptable risks. I think some of them seem to be more aggressive than some others. So, I wouldn't say that everybody is doing it. Regarding, the risk profile, as I said before, it's fine to accept lower margin when the market goes down, don't like it, but you have to accept it. It's not fine to accept more risk. And we haven't lost, in my opinion, any work because we remain very strict on our risk profile. We lost some jobs in the past from a pricing perspective, and when I look today at what's happening in the market, we are winning our share of the market and of the projects which are available, which are being tendered, and I'm firmly convinced that this will continue in the future. There are less projects, but we will win our share.

**Kristian Diesen**: So as a follow up on that, the significantly lower market share you had in 2014 with regards to order intake, you would expect to reverse and yourselves to catch up, so to speak, on that going forward.

**Jean Cahuzac**: When you look at 2014, we lost one or two big jobs like Kaombo which obviously had an impact on our own backlog compared with one of our competitors, but that's it. We won our share of the market in other places of the world. I do expect to win our share of what will be available in the months and year to come. I'm not sure that we will catch up and win more than our share of the market. We are very competitive with the first tier and I think we will remain very competitive with the first tier.

**Kristian Diesen:** Thank you.

**Operator:** Our next question comes from Christopher Møllerløkken of SB1. Go ahead, sir. Your line is open.

**Christopher Møllerløkken**: Thank you. In terms of the Bonga South West project in Nigeria, according to media reports, it said that the SURF bids there were deemed 30% too high for the operator and the project has been postponed until next year. Would you care to join or give us some flavour on the discussions you are engaging on with the operator here? I assume that you would propose a more standardized solution, while they would look for a straight price cut?

**Jean Cahuzac:** Well, as you can imagine, I cannot give you details on the commercial approach that we have for Bonga, but what I can tell you is that Shell has engaged with the industry in some very constructive discussion. They are not asking for price cut. They're asking us to find a solution to lower the price, which is different by looking at a different approach, reviewing the scope, proposing a more fit-for-purpose solution, discussing the local content. These discussions are, in fact, ongoing, as I speak, with the industry and we are one of the few players who are engaging in this discussion. So, the initial plan for Shell was to award the contract to the industry prior to the election in Nigeria, didn't go ahead as planned, but I think it's one of the projects that will be sanctioned and will go ahead. Uncertainty on the timing, I agree, but the project is not cancelled.

**Christopher Møllerløkken:** Could you also please quantify what the impact was in the first quarter regarding the close-out of the project, which positively impacted Q1 margins? And secondly, would it be fair to assume or give any quantification regarding the impact of the stronger dollar on revenues in first quarter? Thank you.

**Jean Cahuzac:** Ricardo, do you want to comment on the impact of the dollar?

**Ricardo Rosa:** We'll take that first, Christopher, and we estimate that the impact of the strengthening dollar in the first quarter was approximately $70 million at the revenue level. But the impact on margins and net income was immaterial, as we also had a positive impact on our cost structure as a result of the movement in the dollar against our various functional currencies. In terms of the profitability of close-outs, as you know, we have at any one time a number of projects at various stages of execution. And the fact that towards this that we had a number of major projects this quarter closing out is not necessarily different from any other time. We don't comment on the profitability of individual projects, but I would say overall is that our good cost management, our good de-risking of the project and some good commercial discussions resulted in a positive result in the first quarter. But I wouldn't describe it as overly exceptional.

**Jean Cahuzac:** I would not extrapolate the margin that we had in the first quarter to every quarter. There is still in terms of activity and timing of projects, there's still some uncertainty, in particular at the end of the year. So, I wouldn't extrapolate these numbers. Every quarter, as you know, is a business which can vary up and down from each quarter. I think we can take one more question, and then, Isabel will be available to answer any questions that you may have a bit more after the call.

**Operator:** Thank you. Our last question will come from Frederik Lunde of Carnegie. Go ahead, sir. Your line is open.

**Frederik Lunde:** Thank you and congratulations on a good quarter. One very short question. Do you intend to fulfil the $200 million share buyback program this year?

**Jean Cahuzac:** Ricardo, can you summarize our approach for share buyback and how the management and the board look at it?

**Ricardo Rosa:** Certainly, Jean. First of all, Frederik, can I remind you that we have taken a number of anti-dilutive measures in the last two years for the benefit of our shareholders. That includes part share repurchase programs and redemptions of convertible bonds for cash. So, currently, we are continuing to execute the prevailing share repurchase program of $200 million, but at a relatively moderate pace, as Jean has indicated. And the reason for this relatively moderate pace is that it is our key priority for the use of our cash to maintain our balance sheet strength in the current uncertain and challenging market environment, particularly since we don't have yet a clear view as to how long this downturn in the cycle will last. You need to therefore look at our share repurchase program and our commitment to it in the context of a disciplined approach to balance sheet strength, liquidity and our capital investment strategy. This does not mean that we will cease from continuing to execute on share repurchase programs. We view this as a very flexible way of returning cash to shareholders and we are committed to returning cash to shareholders when we believe that it's appropriate to do so.

**Frederik Lunde:** Thank you. Just one more question, if I may, on the backlog. As Christopher was referring to, the currency has had a big effect, about $1.2 billion of translation effect, on the backlog. But if you'd report it in constant currency, the backlog would have looked bigger. But when you look at it and if you match the backlog versus your assets, do you see a more natural hedge here, in the sense that your costs in local currencies as well?

**Ricardo Rosa:** I think the volatility on the backlog is and what you have to bear in mind is that the backlog includes a number of long-term contracts and in particular those in Brazil. So what you have is volatility that at the time of execution may have reversed itself. Our strategy is effectively to match our costs and revenues in the various currencies in which we operate. And so when it comes to execution, we work on preserving the dollar-denominated economics of our projects. So, I don't get unduly concerned about volatility in the backlog because we've taken the necessary steps to preserve the economics of our projects at the time of execution.

**Frederik Lunde:** Okay. Thank you.

**Jean Cahuzac:** I would like to thank you in participating in this Q1 Results call and I look forward to talking to you all in the second quarter.