SUBSEA 7 S.A.

Quarter 4 and Full Year 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 – Head of Investor Relations

Hello 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 slides that we'll be referring to on today's call.

Turning to **slide 2**, I'd like you please to take note on our forward-looking statements disclosure. Similar wording is also included on the press release.

And, with that, I would like to turn the call over to Jean.

Jean Cahuzac - CEO

Thank you, Isabel. Good afternoon, everyone, and welcome to our results' conference call.

I will start with the highlights of our performance in the fourth quarter and full year 2015 before handing over to Ricardo, who will cover our financial results in more detail. I will conclude by sharing our view of the outlook and how we're actively navigating through this very challenging market. As usual, we will take your questions at the end of the call.

I shall start with the 2015 highlights on **slide 4.**

We delivered very good operational and good financial results in a very difficult market; with declining levels of industry activity as our clients reduce expenditure due to the low oil price.

Order intake in the year was $3.4 billion, coming from new awards as well as contract escalations, taking our backlog to $6.1 billion at the end of December.

While order intake was lower than in previous years, it still demonstrated our competitiveness both for large and small projects during the period. And this was achieved while remaining disciplined regarding the level of risk that we are willing to accept.

Total vessel utilization was 72% for the year and 62% for the fourth quarter. This was lower than the comparable prior-year period, particularly for the diving support vessels in the Northern Hemisphere.

Our active vessel utilization, which excludes stacked vessels, was 78% for the year and 74% for the fourth quarter.

Our priority has been to act early to face the downturn and strengthen our Tier 1 position.

In 2015 we delivered our active fleet and workforce resizing plan and reorganized our reporting structure. We set up powerful alliances with industry-leading partners and established new ways of working with our clients. We continued to invest in innovation to deliver the best cost-effective technology, such as our pipeline bundles and heated pipe solution.

So when I look at 2015, I'm very pleased with what our people have been able to achieve around the world.

Moving now to the financial results on **slide 5.**

In the fourth quarter we generated $310 million adjusted EBITDA on $1 billion of revenue, giving a 30% margin.

Adjusted diluted earnings per share was $0.29.

The goodwill on our balance sheet, resulting from the combination in 2011, was impaired by $521 million in the fourth quarter due to a deterioration in the near- and medium-term outlook for the oil and gas service industry. This non-cash, non-recurring impairment charge does not impact our adjusted EBITDA and has been excluded from our adjusted diluted earnings per share.

For the full year our revenue was $4.8 billion and adjusted EBITDA was $1.2 billion, giving a margin of 26%. This included a restructuring charge of $136 million relating to the resizing of our workforce.

Adjusted diluted earnings per share was $1.45.

We ended the year with the robust financial position with net cash of over $400 million, reflecting significant cash generated from operations, optimized working capital and tight control of investments.

Mindful of the challenge affecting the oil and gas industry in the near to medium term and in order to preserve our financial flexibility, the Board will not be recommending a dividend in respect of 2015.

Returning to operational performance on slide 6.

We executed well and there was significant progress on complex projects in both hemispheres in the fourth quarter.

Offshore Norway, the Gullfaks project, which included the installation of the first wet gas compressor worldwide, was substantially completed. And the Maria project progressed as per plan with engineering and procurement.

In the Gulf of Mexico, the newly built PLSV *Seven Rio* successfully installed umbilicals on the Stones project and has subsequently commenced day-rate work under its long-term contract for Petrobras offshore Brazil.

Also offshore Brazil, the BC-10 project made significant progress.

Offshore Angola, the Lianzi SURF project was substantially completed using leading-edge technology to install the world's deepest electrically heated pipeline.

The Lianzi Topside conventional project is also near completion.

Significant progress was also made on the TEN project offshore Ghana.

The Erha North project offshore Nigeria was substantially completed in the third quarter but still contributed to the fourth quarter results with successful risk mitigation and commercial close-out.

Our capability and capacity differentiators from the competition and its attributes have allowed us to successfully deliver the three large projects offshore Africa in the same year.

Our fleet of PLSVs on long-term contract in Brazil continues to operate with high levels of utilization.

However, an incident aboard PLSV *Seven Waves* that we believe resulted from a failure of the client free-issue product has extensively damaged the pipe lay tower. *Seven Waves* has returned to Europe and is stacked to minimize operating costs while the tower is repaired. We expect her to resume operation in Brazil in 2017.

Our life of field business experience reduced offshore activity levels compared to the fourth quarter 2014, reflecting the prevailing market conditions.

Our joint venture Seaway Heavy Lifting reported an increasing contribution compared to the fourth quarter 2014, due to higher activity both in oil and gas and renewable projects.

Turning to our backlog on **slide 7**.

The tendering environment is competitive and the timing of new awards remains highly uncertain as our clients continue to delay awards to the market.

We ended the quarter with $6.1 billion of orders in our backlog. $3.2 billion of this backlog was for execution in 2016. And our long-term contract for PLSVs offshore Brazil represented $2.2 billion.

We won a good share of the available work in 2015, reflecting our proactive measures to increase our clients' offering and lower the project costs.

Our fourth quarter order intake of $400 million, including a number of announced awards: East Nile Delta project, the platform extension and tie-in on the first phase of the West Nile Delta development, both located offshore Egypt.

Last week we were awarded the contract for Phase 2 of the West Nile Delta development in the GFR fields offshore Egypt. This contract has a value of over $750 million. And today we announced a contract extension for life of field offshore UK, west of Shetland.

These new awards were not included in the Q4 reported backlog.

I will now hand over to Ricardo to talk about our financial performance in more details.

Ricardo Rosa - CFO

Thank you, Jean, and good afternoon, everyone. Let's first look at the income statement highlights on **slide 9.**

Fourth quarter revenue was $1 billion, taking the full year 2015 to $4.8 billion. This was approximately 30% lower than in 2014, due to lower activity levels industry wide during the year.

Adjusted EBITDA at $310 million in the quarter and $1.2 billion for the full year reflected the relatively significant proportion of projects in the final stages of successful completion, which gave rise to the high margins of 30% and 26% respectively.

Included in the full-year adjusted EBITDA is a $136 million restructuring charge in relation to the cost-reduction and resizing program that we implemented in 2015.

Both our revenue and costs were affected by foreign currency movement's year on year but, overall, the impact on our earnings was not material.

In the fourth quarter we recognized a partial impairment to goodwill, which had resulted from the combination in 2011. This impairment was in response to the low oil price environment and lower-for-longer market outlook.

The $521 million non-cash charge did not impact our adjusted EBITDA but affected our net operating income and net income figures, as well as earnings per share.

Excluding the impairment, we generated net operating income of $665 million, net income of $484 million and adjusted diluted earnings per share of $1.45 in 2015.

Slide 10 provides more detail behind the income statement.

Our reported annual net operating income of $144 million included $136 million in asset impairment charges, in addition to the goodwill impairment.

These charges, $96 million of which was recognized in the fourth quarter, related primarily to certain lower specification in niche vessels, some of which have been stacked due to the lack of foreseeable work in the medium term.

After adding net finance income of $9 million and other mainly foreign exchange gains of $33 million, we reported income before taxes of $185 million for the year.

The $222 million tax charge for 2015 was the equivalent to an effective tax rate of 31%, after excluding the impact of the goodwill impairment, on which no tax relief is available.

Reported net loss for the year was $37 million.

I will now turn to **slide 11** to cover the fourth-quarter performance by each business unit.

In the Northern Hemisphere and life of field business unit revenue was $305 million; 50% lower than in the prior-year fourth quarter, due to significantly lower activity levels in the North Sea and Gulf of Mexico.

Excluding the impact of the goodwill impairment charge, net operating loss was $49 million, reflecting reduced margins on certain projects, combined with low vessel utilization driven by seasonal considerations.

Notwithstanding continued lower activity in the first quarter 2016, we expect profitability to improve in response to our cost reductions and good project execution.

In the Southern Hemisphere and global projects business unit revenue was $717 million; a decrease of 8% compared to the fourth quarter 2014.

Activity levels reduced, as existing projects were completed and fewer new projects commenced operations offshore. This trend is expected to accelerate in 2016.

Our PLSVs on long-term contract in Brazil continue to achieve high levels of utilization, despite the incident affecting *Seven Waves* in December.

Excluding the impact of the goodwill impairment charge, net operating income was $245 million compared to $116 million in the fourth quarter 2014.

The increase was mainly due to the successful execution, risk mitigation and commercial close-out of a number of projects, including the Erha North project offshore Nigeria and the Lianzi SURF project offshore Angola.

Turning to **slide 12**.

In May we commenced a cost-reduction and resizing program to adapt to the downturn in market activity. We have exceeded our targeted reductions and the cost savings have already started to impact our results.

We announced plans to reduce our workforce by 2,500 people compared with end 2014. At the end of 2015 the reduction was closer to 3,600 as we maintained our focus on streamlining our processes, reducing costs and finding efficiencies.

We also indicated that we would remove 12 vessels from the active fleet by early 2016. By the end of December we had removed 10 vessels and by the end of March 2016 we will have removed 13.

Seven owned vessels have been stacked, five chartered vessels returned to owners and one vessel, the *Seven Polaris*, was scrapped. Our newest addition to the active fleet, the PLSV *Seven Rio*, commenced operations in September.

We incurred $136 million restructuring charge in 2015 as a consequence of the resizing program. The impact in 2015 of this charge was broadly offset by the benefits the program has already delivered and we forecast that we will achieve at least $550 million annualized savings in 2016.

Our early actions to resize our capacity enable us to lower project costs for our clients, thereby enhancing our competitiveness. Our capability remains intact and we continue to provide our clients with excellent execution and position ourselves to win new awards.

Using **slide 13** I'd like to reflect on the changes to our cost base in 2015.

Our operating expenses are approximately one-third lower than the prior year as we optimized costs across all our operations worldwide and the mix of our work changed as we completed projects.

Our procurement and direct project costs in 2015 were $1.6 billion; approximately 40% below the prior-year figure as we targeted supply chain efficiencies and some of the large projects we were executing came to a close. This downward trend is expected to continue in 2016, albeit at a slower pace as the proportion of EPIC projects in our workload reduces.

We have achieved significant reductions in the size of our workforce, while retaining core capability. In parallel, we have adopted other measures to reduce the cost of our workforce, such as decreasing rates for contractors and implementing revised compensation and employment terms for personnel offshore and onshore.

As a result, our underlying people costs were approximately $350 million lower than in 2014, after excluding the impact of foreign exchange movement's year on year.

$800 million of vessel and other costs included the $136 million non-cash impairment charge and have remained in line with the prior year. We expect savings in 2016 as we expect to see the full-year benefits of a reduced active fleet. These savings, however, will be partially offset by the operating costs of our remaining four new-build vessels when they commence operations during the year.

Depreciation and amortization charges, excluding impairments which are non-cash, were stable year on year with depreciation on new-build vessels offsetting reduced charges on the existing fleet following impairments and disposals.

As reflected on the summary balance sheet on **slide 14**, we ended the quarter with a cash and cash equivalent balance of $947 million.

Total borrowings stood at $524 million, driven down during the year by the repurchases of $70 million par value of the 2017 convertible bond for $65 million in cash.

Our liquidity position remains strong. In addition to our cash balance, we have unutilized credit facilities totaling $857 million.

I now turn to **slide 15**, which provides an overview of our cash flow for the year.

As a result of tight cash management and a focus on cost reduction, we ended the year with net cash of $423 million on the balance sheet, driven mainly by a combination of a high EBITDA margin and close control of sustaining capital expenditures.

Net cash generated from operating activities totaled $1 billion, with $421 million generated in the fourth quarter.

Somewhat contrary to forecast trend, net operating liabilities increased by $64 million in the year, largely as a result of our continued success in reducing contract-related receivables and the timing of capital expenditure milestones.

Net cash used in investing activities was $554 million; approximately two-thirds of the prior-year net investment.

We invested $639 million in capital expenditure, largely in relation to the construction of the new-build vessels, with sustaining capital expenditures reduced to $140 million; 50% below 2015 levels.

No dividend was paid in 2015 and none has been recommended by the Board for 2016 as we prioritize financial flexibility in light of the highly uncertain market outlook for new awards.

The Board remains committed to returning excess cash to shareholders and during the year extended our $200 million share repurchase program to July 2017. In total $57 million has been returned to shareholders through this program, of which $7 million was in 2015.

Moving to **slide 16**.

Construction of our new-build vessels is making satisfactory progress. *Seven Rio* commenced operations in 2015 and the construction program is due to be completed in 2016 with delivery of the remaining four vessels.

We spent $499 million on the program in 2015; lower than guided, as a result of the timing of certain milestone payments around the yearend. We have correspondingly increased our expenditure guidance for 2016 with no significant impact on the total cost or duration of the program.

Before I hand you back to Jean, I'd like to discuss our financial guidance, which is summarized on **slide 17**.

Our guidance for revenue and adjusted EBITDA percentage margin in 2016 is unchanged, with both expected to be significantly lower than reported in 2015 results.

Administrative expenses in 2016 are expected to be in the range of $240 million to $250 million, somewhat lower than in 2015, excluding the $43 million restructuring charge.

The completion of our new-build vessel program impacts our guidance for depreciation and finance costs as we will stop capitalizing interest charges and start to depreciate the invested capital when the new-build vessels are delivered.

We expect net finance costs between $5 million and $10 million and our depreciation charge will be around $400 million to $420 million.

The effective tax rate in the year is expected to be in the range of 31% to 33%; slightly higher than 2015, reflecting the geographical mix of our projects.

Capital expenditure is expected to be lower than 2015, falling within the range of $450 million to $480 million. This includes approximately $340 million to complete the new-build vessel program and a low level of sustaining capital expenditures forecast to fall between $110 million and $140 million, in line with cost-saving measures in the reduced active fleet.

I will now pass you back to Jean.

JEAN CAHUZAC - CEO

Thank you, Ricardo. **Slide 19** summarizes our view of the outlook for 2016.

Low oil and gas price continues to depress industry activity. The outlook for awards to the market is uncertain and clients delay new projects. Some medium and smaller projects are still achieving final investment decisions, particularly where substantial cost savings have been identified by early engagement and new ways of working. Timing of sanctions for large SURF projects is more uncertain.

In this down market we are facing aggressive competition but our competitiveness remains intact and we expect to maintain our market share of new work.

As a result of our successful strategic focus on the right opportunities, we have won awards of offshore Egypt totaling $1.5 billion for execution over the next few years. We continue to carefully target our resources in the areas most likely to make progress despite the prevailing market conditions.

Our bidding strategy will not change. We will remain disciplined and only commit to projects when the risk profile is acceptable.

I am aware that there has been continuous speculation regarding our long-term contracts for PLSVs in Brazil. There are two third-party Brazilian flagged single-A PLSVs with top tension capacity of less than 350 tons available in the market today. These may be given priority by law over international vessels of a similar specification. As a result, a proportion of our backlog and that of our competitors could be affected.

Discussions are in progress with the client on how to align better our respective objectives and address this risk.

Our conventional and hook-up segment offshore West Africa is expected to continue to suffer low activity levels in 2016 and we have taken steps to minimize our local cost base until activity resumes.

Life of field and i-Tech experienced lower levels of activity in 2015 and this is expected to persist in 2016.

Our Seaway Heavy Lifting joint venture had a good end to 2015 and we see some potential for renewables activity in the North Sea.

In Asia our joint venture SapuraAcergy has limited prospects for new awards in the near term.

Moving to **slide 20**.

We are remaining proactive in this very challenging business environment. I strongly believe the initiatives we have already implemented are key differentiators that will enable us not only to navigate the downturn but also build a better Company long term.

And I see a widening gap between Tier 1 companies, like Subsea 7, and some of our competitors as our clients seek out preferred partners that can provide them with the most cost-effective solutions and consequently good execution.

Turning to **slide 21**.

As Ricardo has already detailed, we moved quickly and delivered our plans to simplify our organization and resize our workforce and active fleet in 2015. If needed, we are ready to take further actions to protect our business in the downturn but without losing focus on our long-term strategic priorities.

Looking now at **slide 22**.

We are driving a number of business improvements to lower our cost base and deliver savings to our clients. These changes, which include proposing fit-for-purpose solutions and reducing the administrative burden, are happening right across our business. We are adapting the way we work, while managing our risks and staying focused on consequently good execution.

Each project is different and the areas for cost efficiency vary. But, by applying new best-practice solutions to tenders across our portfolio, we are making a material difference to the breakeven on many of the projects waiting for sanction today.

Savings of 20% to 30% can be achieved, sometimes more, when re-engineering and technology are involved.

A recent example comes from a project won in 2015. To reduce bureaucracy we proposed to a client that our expertise and reputation should allow them to adopt a more hands-off approach, trusting us to monitor our own work, with significantly lower client oversight. This resulted in close to 30% reduction in combined project man hours between us and was a major contributor to our winning the award. Progress on this project is approximately 50% now and I'm very pleased we are on time and on budget.

Turning to **slide 23**.

We formed two strategic alliances with leading industry partners in 2015. Both alliances provide a framework for long-term collaboration. We believe this alliance strengthens our competitive position and enables us to deliver sustainable improvements in the economics of deep-water oil and gas projects.

We do not claim to have a silver bullet cure for the challenges our industry is facing but, by working together to jointly serve our clients, we can unlock new solutions that substantially reduce the cost of production.

Our concept engineering and FEED alliance with KBR and its subsidiary Granherne combine the best-in-class engineering capability with our technology, engineering and installation expertise. Together we have a market-leading offering in early engagements. We are already working together on several concepts and FEED studies, where early engagement significantly improves cost efficiencies.

Our alliance with OneSubsea offers clients integrated subsea development solutions, encompassing a wider range of experience and expertise than any other combination in the market today.

Clients' interest in an integrated approach is growing and we are working on a number of studies to establish the case for the combined SURF/SPS business model.

Moving on to **slide 24**.

Our position as a Tier 1 operator with a long track record of innovation and performance makes us a strategic partner of choice for our clients. This has enabled us to extend our relationship with some of our clients to provide support on an exclusive or preferred supplier basis.

We have been working this way with Centrica in the UK for some time and during 2015 signed additional agreements with Centrica Norway, Premier and MOL. Collaboration brings mutual benefits by driving down cost and developing better solutions through early engagement.

As a result of this approach, today we are working on the FEED of the Premier Sea Lion project in the Falklands.

Slide 25 illustrates our strategic technology programs.

We have delivered technology advances in a number of areas in 2015, such as electrical heat-traced flowlines, high pressure/high temperature bundles, automatic welding and ultrasonic inspection technology.

We have been laying bundles for over 35 years but our technology has not stood still. In 2015 we qualified a high temperature/high pressure bundle solution and also developed new low friction model components to reduce manufacturing costs.

In life of field our technology team has been adapting ultrasonic imagery technology, developed to inspect aircraft frames for stress and falls to support IMR work on subsea pipelines. The result is reduced in-water time and quick and simple imagery of internal corrosion and cracks without extensive training or equipment, thereby saving time and money.

We will continue to invest through the cycle to develop new enabling and cost-reducing innovation, which will help our clients address key subsea development challenges.

Turning to **slide 26**.

In conclusion, the environment for our industry is very challenging; even more challenging than it was four months ago. We can't influence the oil price but we can move decisively and purposefully to strengthen our place in the top tier and help our clients to find new ways to make projects work at a lower cost, despite the headwinds we all face.

The fundamental long-term outlook for deep-water oil and gas remains strong and activity is expected to recover when the market rebalances.

We are proactively building on our capability and adapting to industry conditions, while staying focused on our strategic priorities.

I will now open the call for your questions.

QUESTIONS AND ANSWERS SESSION

JAMES EVANS – BNP PARIBAS

Just a couple from me, please. Firstly, could Ricardo, just talking through the guidance, actually not so much for next year but the year just gone. You originally guided margins down. You've delivered underlying, ex-restructuring, 700 basis points up.

I think we're all struggling with just how much of that is coming from contingency release, etc. So maybe you could talk a little bit more what drove the delta there.

And then secondly, just on the maintenance and sustaining Capex, quite a low number this year. How sustainable is that sustaining Capex, if you will, as we head into 2017 if activity levels do not improve?

RICARDO ROSA - CFO

I'll take the second question first because it's probably the less complex one, in respect of maintenance Capex. I think what we have been able to show in the course of 2015 is that we have focused very much on spending where necessary and minimizing any so-called nice to haves.

I think this level of expenditure we're expecting to repeat and perhaps improve in 2016.

It's driven largely by the dry docking of the existing fleet and, on occasion, some equipment renewals. It's an approach that can be sustained for a number of years but long term is not sustainable. So it's difficult to say whether we can sustain it for two, three or five years, but certainly in the near term we can do so.

As far as the margins are concerned for 2015, I think there are a number of factors here but I think the fundamental one is that, as the year has progressed and as we have executed projects in the course of that year and addressed and mitigated risks in that offshore execution, we've been able to enhance the margins that we had expected earlier on in the year.

And, on top of that, we have been able to, as a result of our good performance and delivering projects sometimes ahead of schedule in terms of first oil for our client, we've been able to reach settlements with our clients on issues that had arisen during the course of those projects.

So, overall, I think it's a significant testament to what the Company can achieve on very large projects, particularly in tough environments in Africa.

JEAN CAHUZAC - CEO

I would like to add one comment on the operating Capex. We've been talking about the great execution on our projects that we deliver to our clients.

I've been saying the same thing on what we did with costs and what we did in maintenance where we've been able not only to deliver on time and on budget but also improve our processes and simplify what we are doing, therefore lowering the cost.

I think it's one of the strong points of the highlights of Subsea 7 that we will maintain in the coming years.

ANDREW DOBBING – SEB

In your Q3 presentation you were approaching completion on a number of your major projects. I personally expected a lot of those projects to complete in Q4 and that to help us release a lot of contingencies. Now we saw the contingencies but a lot of those projects haven't completed. Does that mean there's still good prospects for contingency release in Q1 and Q2 this year?

JEAN CAHUZAC - CEO

We continue to execute the projects well and I think the confidence our clients have in us makes commercial negotiations easier. But one has to say that there are a number of projects which are almost complete and there will be less and less projects to be completed in the future. That will have an impact on the result.

ANDREW DOBBING – SEB

Just, following on from that on Guara-Lula. Is that being completely finalized in terms of negotiations you're having with the client? Or is there perhaps opportunity for some release from that contract as well?

JEAN CAHUZAC - CEO

Largely completed in a very good spirit with the client, with fully aligned objectives.

ANDREW DOBBING – SEB

And finally, could you give us any indication at all of the financial consequences of the accident on the *Seven Waves*? It's going to be out of action for 12 months, so that's quite a long time. It's a vessel with a pretty healthy day-rate contract. Are you going to suffer a lot on the back of that?

JEAN CAHUZAC - CEO

When you look at incidents like that you have to look at what happened. We believe it was equipment [product] provided by the client which failed and, therefore, that has to be taken into account. We are not in a position to give numbers on *Seven Waves* or on the other PLSVs as we are in discussions.

ANDREW DOBBING – SEB

Can you tell us what piece of equipment it was that failed?

JEAN CAHUZAC - CEO

I would really rather not enter into detailed complex technical discussion which could be misleading. When I said equipment, sorry, I should have said product provided by the client, not equipment. It was a product provided by the client. Please correct that.

GUILLAUME DELABY – SOCIETE GENERALE

My question is more or less in line with the two previous ones. I would like to try to dig a little bit more regarding 2016 profitability.

Maybe I missed it, but I got the impression that Ricardo said that he was relatively confident regarding 2016 profitability. Maybe I missed it. But somewhere else in the presentation you said that more mitigating action might be needed. So if we can reconcile those two elements.

JEAN CAHUZAC - CEO

Let me try to clarify. I think what we mean is that we are confident that we will continue to deliver our projects very well.

When there is a lack of visibility on the market and, depending what happens in terms of timing of project awards, we may have to take additional measures to adjust our structure to the evolution of the market. That's what we meant. It's not a question of profitability; it's a question of level of activity.

I think we've demonstrated in 2015 that we were able to be very proactive in terms of taking the necessary measures to adapt to market trends. We will continue to take the same approach in 2016, if needed.

GUILLAUME DELABY – SOCIETE GENERALE

Clear. Thank you.

NICK GREEN – BERNSTEIN

Firstly, on the additional headcount cuts that you've, not the cut you've announced, but the lower headcount numbers, which is a welcome data point. Could you comment why the annualized savings you're expecting to see, the $550 million, hasn't increased from your Q3 guidance, even though the headcount has come down further?

And secondly, can you talk a little bit how you see the North Sea footprint going forward? And, particularly, how can you justify in your mind keeping I think it's about six yards and spoolbases for that region when, even if the offshore does recover, and a number of us think it may not do, even in a recovery scenario, presumably the North Sea will be one of the slowest places to recover.

And then perhaps, finally, if we could return into the potential sales and EBITDA impact of the PLSV fleet in Brazil potentially losing two of those vessels and the *Seven Waves* as well. Cursory numbers would suggest about $100 million sales per vessel and they're quite high EBITDA margin. So are you able to give us any scenario numbers around that, please? Thank you.

JEAN CAHUZAC - CEO

So let me try to take them one by one. Regarding the PLSVs, what we said is that they are two locally built PLSVs with Brazilian flag, which are today available on the market. I'm going to ask John to explain how the process works and what it could mean for us, but maybe also our competitors.

JOHN EVANS - COO

As you know, there is a process in Brazil, which ANTAQ, a state body in Brazil, regulates, which allows local Brazilian-built vessels to have priority over international vessels of a similar class and similar capability.

As Jean says, we then need to look at the PLSV fleet globally in Brazil and they generally break into three groups.

Triple-lay vessels: and we have two triple-lay vessels in Subsea 7, which are a certain category and a certain capability. There are then single-lay vessels of a certain tension, a lower tension capability, around 350 tons and below. And there's a group of assets with Subsea 7, some of our competitors in that group. And finally then there is a group of higher tension single-lay vessels, which are generally the newer assets which are coming into the market.

And the process requires ANTAQ to compare similar Brazilian-built vessels.

As Jean mentioned in his narrative, there are two Brazilian-built vessels of 350 ton single-lay capability in the market today.

So, as Jean says, we need to look at the whole market, the position of ourselves and our competitors. And then the very specifics of which assets may be blocked or may not be blocked. So that's the way we look at this. And that's the way the industry will be managed by ANTAQ going into the future.

JEAN CAHUZAC - CEO

Regarding the North Sea. First, I don't necessarily share your view on the medium term and long term of the North Sea. The North Sea today is obviously very depressed but the North Sea will pick up when the oil price starts picking up.

In particular, because it's an area where we are demonstrating today that we can work in a different way, we can work differently with our clients. We have different processes. We have alliances, which will allow to lower the price of the project and make projects viable at a given oil price when they were not in the past.

So I would say on the long term I may not be as pessimistic as you are on the North Sea.

The second point is regarding the spoolbase and the yards. What we are doing for the spoolbase and the yards is what we're doing for the vessels. We actually stack equipment, we cut costs, we cut cash and we will navigate with this approach through the downturn with more limited costs.

Regarding the savings, Ricardo, do you want to comment?

RICARDO ROSA - CFO

I'll pick up on that, Nick. And in doing so I'll use as a reference slide 13.

I think the first point to make is that, when we talked about the $550 million reduction, we were talking about the benefits that we foresaw of the measures that we initiated in May 2015.

I think you have to remember, and I think we highlighted on a couple of occasions, that we had started our cost-base reduction process back in 2014 when we had early signs that the market was plateauing. So I think what you're seeing is, in 2015, the potential impact of measures already initiated in the prior year.

And now let's talk about more specifically in terms of numbers. And I think the reduction that is most evident is the drop from $2 billion in personnel costs that we incurred in 2014 down to $1.4 billion in 2015. Now that's about $600 million.

Of that, approximately $250 million reflects the benefits of a strengthened US dollar versus the main currencies we work in, which leaves us with a net $350 million reduction that we have achieved in the course of last year. That $350 million needs to be looked at in the context of, or taking into account I should say, the $136 million resizing provision that we took in 2015. So, underlying that, you have a reduction of around $490 million.

And this is as the result of measures taken in the course of 2015. So in 2016 we're expecting to see the full annualized benefit of our measures, which we had estimated in the order of $550 million.

And as a last comment on that, you should also consider that the movement on vessel and other costs is, in fact, based on the slide it's nil. But, underlying that, what you have is a higher impairment in 2015 and you've got to take into account the fact that most of the vessels that we took out of service occurred in the third quarter and fourth quarter this year and had some associated stacking costs.

The last variable in this equation is the fact that we will have four new-build vessels entering service in 2016. And they will mitigate some of the very significant reductions that we have achieved so far since we started our efforts to reduce our base.

NICK GREEN - BERNSTEIN

Just then a follow up on John, please, regarding the PLSVs. Just quickly, it sounds from your comments there that we are talking about the *Seven Mar* and the *Normand Seven*. And they would be, as I said, generating about $100 million a year. If it's something like 40% EBITDA margin, that's a sizeable $40 million EBITDA each. You also have *Seven Waves* not producing EBITDA in the year.

So can you confirm to us whether the guidance you gave for the margin in the year does or doesn't reflect profit coming from three vessels in Brazil?

JEAN CAHUZAC - CEO

I'm not going to give you numbers on the PLSVs, for good reason. Reasons that you understand, as we are in discussions with our clients. We have given you guidance on this. I will just say that if we're expecting a material difference between our views and what the market is saying, we are under obligation to announce it, but we don't.

ROB PULLEYN – MORGAN STANLEY

Two questions; the first one to Ricardo. Could you maybe give us a bit of a steer as to how you think working capital is going to evolve through 2016 as you wrap up some other projects in the backlog? Obviously a good inflow in the fourth quarter, but it would be interesting to hear how that pans out going forward.

And secondly, and not to be a little bit too specific about things, but just looking at your Gantt chart of project execution, obviously several things going well there. But the SLMP project in Norway seems to have gone backwards a bit from about 58% to about 55% over the last three months. I was just wondering what was going on there?

JOHN EVANS - COO

That Norwegian project is a series of riser replacements that we get contracted each year by different quantities of riser replacements. So, as we get additional work added in, our pot moves backwards and forwards. So there's nothing to be concerned about materially in that contract. It's just the choices of which risers and which locations will be working in different years as being modified.

RICARDO ROSA - CFO

A couple of comments on net working capital position. As you quite rightly pointed out, we ended the year with a negative net working capital position of around $700 million, if you take out cash and short-term borrowing, which is a significant improvement on Q3 but somewhat contrary to expectations. And it highlights the difficulty in being able to model quarter to quarter the movement of working capital because of the very many variables that drive it.

I think we've identified the main drivers as being excellent collections in the quarter from clients; the timing of certain milestone payments, in particular in relation to the new builds and the Capex program there; and, if you like, an extended close-out of certain lump-sum projects with associated residual liabilities.

So going forward in 2016 I don't think we're in a position to be too specific about the quantum and timing of the reversal of our negative position in working capital. What I can say is that we are expecting it to occur. I can't tell you if it's going to be significant in Q1 or Q2 or Q3. And the order of magnitude will be significant.

At this stage I don't really want to put an exact figure on it but I would highlight too that a proportion of the cash that we're holding in the balance sheet is, if you will, earmarked to cover that eventuality. And, furthermore, we have additional liquidity that's available through our facilities.

HAAKON AMUNDSEN - ABG

I just wondered if you could give some color on the fixed cost reduction. With respect to your view for 2017 and 2018, is the current cost base or the new cost base matching that view? And maybe if you could give some color also on what further potential you have to reduce those further if the outlook worsens from here?

JEAN CAHUZAC - CEO

We're not in a position to indicate numbers for 2017 and 2018. It's far too early. And I would say, in terms of the cost base, I think we demonstrated in 2015 that the organization was ready to take the necessary action in a timely manner. We are ready today, if it was necessary we would be ready to take action but I cannot really give you numbers.

HAAKON AMUNDSEN - ABG

Just a question on Brazil. Your discussions with Petrobras, are those specifically relating to the issue with blocking? Or is it a more general negotiation of the entire fleet rate, structure, term, etc.?

JEAN CAHUZAC - CEO

It relates to the broking from the Brazilian flagged vessel and, as John told you, these two available third-party vessels cannot block a number of other vessels. So it's a general discussion, which takes into account what the local law says about these Brazilian vessels. But we are looking at how to align objectives between the two companies and I would say at this stage being a very constructive approach.

MICHAEL RAE – REDBURN

Firstly, thanks for providing the cost deflation examples on slide 22. I think they're really useful. But I'm just wondering, on top of these deflationary forces, are you seeing any irrational competitive behavior? Do you think competitors are bidding zero or negative margins just in order to secure visibility?

And then the second question. I can see in the slide you've also removed the list of project tenders which are currently underway, which you usually provide, which is understandable, given the customer commentary. But are there any bright spots that you would highlight as offering potential major awards anywhere in the world this year?

JEAN CAHUZAC - CEO

I can't really comment on what the competition is doing in terms of margin and profitability. They only know what they are doing. What I can say is that competition is aggressive, as you would expect, in the market.

Regarding the projects and the large projects, the highlights for us has been Egypt and I think will continue to be Egypt. We see good prospects in this part of the world. And also it has demonstrated that we could be very competitive by getting key contracts in a challenging market in a country where we work.

The timing of awards of other projects around the world remains very uncertain. So I'm not really in a position to be more precise than that. We'll see how it goes. I'm just confident that we'll win our share when it comes.

The other thing which may not have hit everyone's radar this morning but we announced an IRM contract in the North Sea, west of Shetland, with one of our key operators; an extension of two years of a contract, which demonstrates a number of things.

It demonstrates the confidence that the client has in our performance, the fact that we are very competitive from a price perspective and that the client is looking at us as a long-term partner.

So when you put all that together, I'm quite optimistic on our ability to control what we can control. We cannot control the timing of the project. But we deliver and that's important for the clients when they have the choice.

FREDERIK LUNDE - CARNEGIE INVESTMENT BANK

Just one question, really. Could you provide some color on 2016 in terms of the seasonality and also the completions? You do have quite a few projects nearing completion. So should we expect 2016 to be frontend loaded? I appreciate you don't want to give guidance but at least some color on that.

JEAN CAHUZAC - CEO

I think there will be fewer projects in the second part of the year to be completed than at the beginning of the year. So I think you're right from that perspective; there is some frontend loading in 2016.

FREDERIK LUNDE - CARNEGIE INVESTMENT BANK

Would you expect a seasonal uptick in Q2/Q3? Or you expect a much muted summer season this year?

JEAN CAHUZAC - CEO

There is a seasonal effect in the North Sea and part of the results in Q4 relate to the seasonal effect in the North Sea. So we are still seeing the same seasonal effect that we've seen in the past years, albeit in a more competitive environment with less work. So it's a combination of seasonal effect and less work.

GREG BROWN - HSBC GLOBAL RESEARCH

The first question is perhaps one for John. The BP contract announced this morning seems to suggest that your existing business model continues to work in the North Sea. But I was wondering if you've observed anything to suggest a movement away from frame agreements for life of field and into a greater reliance on the spot market, given the availability of tonnage and that general requirement to lower costs.

And then the second question, the new working practices that you discussed have enabled cost savings of between 20% and 30%. And those costs have been taken out relatively quickly. Do you get the feeling that your clients believe that much more can and, indeed, needs to be done? And what sort of levers are you looking to pull to get that cost lower?

JOHN EVANS - COO

On the life of field, you're right that we have extended our position in the North Sea through a renewal on the west of Shetland. We've also renewed our DSVi contract. So we are seeing that a number of clients are prepared to enter into those types of arrangements.

But what you need to remember is that we also provide project management, engineering and a full capability to our clients in terms of how they handle their managed asset base.

And so, for us, we are seeing interest in our model. There are a number of bids at the moment in Australia, where clients are looking at how they might approach the life of field of some of the large LNG projects which have come into play. And, as you know, we provide a similar type of service for BP in the Gulf of Mexico at the moment.

So I think its “horses for courses” and different clients approach in different ways. And our model in life of field is we give our clients what they want, whoever our client is, so we can offer them a quick turnaround on a spot basis or a complete three or five year framework. So we have a very flexible model in life of field.

In terms of the cost reduction, I think the key thing we're seeing is early involvement. The key to this is earlier involvement. The quicker there is an involvement of the installation contractor and, in some cases, the hardware SPS guys and the installation contractor together, the more ability we have to pull the big dollar levers. The later we get involved; it gets tighter in terms of what we can do.

So I think we are finding that clients are responsive to that view and that we are in a number of discussions, which are very interesting, about how we can relook at re-engineering fields and reconfiguring fields. But that is always a two-way street for our clients. We have to give and take in terms of profiling and such like, but it's a very interesting discussion we're in at the moment.

MUKHTAR GARADAGHI - CITI

Two questions. On the Egyptian win, it's clearly a big success for you guys. Could you elaborate on what exactly allowed you to be so successful there? Is it in terms of approach, was it just price-based bidding and you were the lowest bidder? Or was it more behind the scene?

And my second question is on your OneSubsea partnership. Could you just elaborate on what's happening there? And at what point could we see a joint bid from OneSubsea and Subsea 7?

JEAN CAHUZAC - CEO

John, I'll let you answer on both questions, because you are directly involved on this and I think it's one of the highlights also of 2015.

JOHN EVANS - COO

The OneSubsea, to take that one first, I think we will definitely be putting joint bids in during this year. There is a responsiveness from our clients that is interesting towards that model. So I think we will be in a place this year where we will be submitting offers to our clients on that basis.

In terms of Egypt, Egypt is an interesting example of where a client looked at how he was going to procure and how he was going to involve the contractors early.

So BP went through a bidding process on both phases of West Nile Delta and then went through a process of about nine months where they worked the terms and conditions but also made you run a FEED contract in parallel, where we proactively worked with our client on challenging the field there, challenging the sequence of production, as I mentioned on the previous question.

And that was a good example of where we could get fields to sanction for our clients at a number that worked for him and at a number that worked for us.

JEAN CAHUZAC - CEO

And just to add one point. I was in Egypt 10 days ago and visited, obviously, BP but also the partners on other projects, the Egyptian authority. And I must say I've been very, very pleased with the feedback we are getting from the authorities in Egypt regarding our performance.

Schedule of first gas is very important for the Egyptians and I think they are quite relieved with what we've already done on a number of projects. That increases our chances to be well positioned in this country but also in other countries, not only Egypt.

MUKHTAR GARADAGHI - CITI

Jean, given the size of work you are doing there, are there any big procurement new base setup, any sort of challenges like that? Or is it pretty straightforward?

JEAN CAHUZAC - CEO

No. You have to manage with our Egyptian contractors, who are very competent with the logistics, etc., but there is no investment on our side. We have not put any Capex and there is no need. You have quite a mature and performance industry in the oil and gas in Egypt and working in partnership with them will we deliver results.

CHRISTYAN MALEK - NOMURA

Just two questions, if I may. First of all, in terms of just the underlying margin within Subsea, particularly in the high end. You talked about separating yourselves from the competition, given your Tier 1, which would imply there's still bifurcation in the market and your vessels are still worth a premium.

I know you don't want to talk about the competition, but what sort of pricing environment are you seeing occur, discounts or the range in pricing on bids that are coming into the market? Could you talk a bit about that or qualify what the range is? And how much more discounted is the competition versus yourselves?

And the reason I ask is just to understand what is the underlying or normalized margin that you're heading towards, given at the moment it's being mitigated by costs reduction? But just looking further out where you see the industry going.

JEAN CAHUZAC - CEO

Not looking at it exactly the same way. I think when we say when we are Tier 1 with early involvement and we're actually demonstrating today that we are differentiating ourselves; the first step is that, we are able to propose to the client to deliver the cost at a lower price for them through efficiency, through leaner processes and everything else. And that's step one. You improve your competitiveness and, therefore, you win more than your market share.

And then you have to execute the project within this context, working within continuous improvement on a number of operations. And then it's the execution side which generates bottom-line results.

So there is no doubt a pressure on margin today in the market. There is pressure on the margin. The end result of a project is driven by this pressure on margin but is, I would say, also driven and maybe sometimes more driven by how well you execute a specific project.

So pressure on margin, yes, but delivery is key. And in 2015 we have delivered very well. But you will see pressure on margin and lower margins on the future projects.

CHRISTYAN MALEK - NOMURA

And you're not willing to quantify that in terms of where you think the move will be for the industry. Is it single-digit margin business going forward? Or is there any way you can give us some idea of the trajectory?

JEAN CAHUZAC - CEO

There is pressure on margin. Margins are going down in absolute terms. I can't really answer your question. It depends on the project, the size of the project. Is it fill-in projects between two jobs? Is it a large project where you can improve margins through excellence delivery? There is no rule. Lower margin than in the good old days, but we can still deliver.

CHRISTYAN MALEK - NOMURA

And then just to follow up, if I may, on your JV to OneSubsea. Given there seems to be a trend towards more horizontal integration and more collaboration, do you find that will be a differentiating factor in securing work?

And, given others are also adopting these similar strategies, how do you view your ability to secure market share, particularly given others have had an earlier start in the process of integration or collaboration?

JEAN CAHUZAC - CEO

I think there is no doubt today that there is a demand from the clients for earlier involvement to lower the prices and one of the key approaches is what we are doing as part of these alliances.

I think today it's very healthy to have competition because, in fact, it gives the opportunity to the client to move faster to these new models. One can argue where these alliances or joint ventures are versus each other. I think we are very pleased with the progress we made with OneSubsea Schlumberger and we are, in particular, very pleased with the involvement of Schlumberger on a number of projects.

And I think when I look at where we are today, we look at the number of projects that we are bidding, we are looking at the interests of the clients, but we're also looking at the alignments that we have and the great alignments we have on a number of areas on the technology side, which will be the step two of a further decrease of costs for our clients on their projects.

So there is no doubt for me that it's the way to go and there is no doubt for me that it will be Tier 1 of these alliances and I'm quite optimistic on that.

CHRISTOPHER MOLLERLOKKEN - SPAREBANK 1 MARKETS

Just a quick question on Q4. Could you quantify a bit the effects you did see regarding the close-out of projects which delivered this strong Q4 margin?

JEAN CAHUZAC - CEO

Not really. It's a combination of very different factors: close-out of projects; release of contingencies; successful completion; the PLSVs' high performance in Brazil. So it's a combination of very, very different factors which allowed us to deliver this result.

DAVID FARRELL - MACQUARIE RESEARCH

One quick question from me. Obviously, on the PLSV you guided to the potential risk for two of the lower tonnage vessels. Is there any risk or can you envisage a scenario when after Petrobras' forthcoming strategy update there is a risk to the higher-tonnage vessels that you currently have under contract and are due to deliver?

JEAN CAHUZAC - CEO

As John was mentioning, there are very strict rules on what can be done and we have triple-lay vessels which are a different design from these single-lay vessels, which have a Brazilian flag. And the high-end vessels have a higher specification in terms of tension, with the Brazilian vessels not much.

DAVID FARRELL - MACQUARIE RESEARCH

So there's no question of overcapacity, even in that high-end space?

DAVID FARRELL - MACQUARIE RESEARCH

There's no concern that there might be overcapacity in the high-end space. Or is it just that everyone would be on an equal playing field with having non-Brazilian flagged vessels?

JEAN CAHUZAC - CEO

These contracts are firm contracts and there is no vessel to displace them from an operating license locally perspective because of a Brazilian flag. So it's a firm contract and I think its fine.

JEAN CAHUZAC - CEO

Right. With that, I think we have to close. I would like to thank everybody for participating to this call. Quite pleased with the year 2015 on what we have achieved in a very difficult environment. There are things that we cannot control, like the oil and gas price, but I think the team all around the world has been very performance in delivering in a difficult environment and acting on what we can control and we'll continue to do that in 2016. Thank you.