Third Quarter 2021 Results Conference Call

Wednesday, 17th November 2021

Introduction

Katherine Tonks

Head of Investor Relations, Subsea 7

Welcome everybody. With me on the call today are John Evans, our CEO, and Ricardo Rosa, our CFO. The results press release is available to download on our website along with the presentation slides we will be referring to during today's call. May I remind you that this call includes forward-looking statements that reflect our current views and are subject to risks, uncertainties and assumptions. Similar wording is also included in our press release. I will now turn the call over to John.

Overview of the Quarter

John Evans

Chief Executive Officer, Subsea 7

Third Quarter 2021 Results

Thank you, and good afternoon, everyone. I will start with highlights from the third quarter before passing over to Ricardo to cover the financial results.

Financial highlights

Turning to slide 3, revenues improved 53% year-on-year to $1.45 billion and our adjusted EBITDA margin increased to 13% from 12% in the same quarter last year, giving us an EBITDA of $185 million. This was a result of high activity in both Subsea and Conventional and Renewables, as well as the benefit of client settlements. Although we had a relatively high build-up in working capital during the quarter, our cash balance was $300 million at the quarter end and our net debt, including lease liabilities, was $99 million.

Operational highlights

During the third quarter, we have a very high fleet utilisation of 94%, up from 84% in the prior year, with an active summer season offshore Norway and in the Gulf of Mexico. Our engineering and procurement teams were also busy on the recent major EPCI awards.

Strategic highlights

Finally, since the second quarter we have made good progress in delivering our strategy, with an increased interest in floating wind through the acquisition of a majority holding in Nautilus, the completion of our combination with OHT to create Seaway 7 ASA, and the announcement of our net zero targets.

Third Quarter Operational highlights

Turning to slide 4 and our operational highlights. Although the challenges posed by COVID remain significant, Subsea 7 made good progress during the third quarter on several projects. The engineering and procurement phase of Bacalhau is well underway, as well as on SLGC, Sangomar and Barossa.

In the Gulf of Mexico, we towed the giant FPU for the Mad Dog 2 project to its offshore location and installed gas export infrastructure and rigid and flexible jumpers.

In Norway, vessel activity was high with the Seven Vega, Seven Oceans and Seven Navica all active on Johan Sverdrup 2. Seven Vega also installed the electrically heat-traced flow lines on Ærfugl 2.

In Australia, the offshore phase of Julimar 2 was completed by the Seven Oceans and the Seven Oceanic before the vessels began their return journey to Norway.

During the quarter, we announced the award of Sakarya project in Turkey, for which engineering the procurement has commenced. And also at quarter end, we announced new contracts for three of our PLSVs in Brazil, which I will talk about shortly.

In renewables, Seaway Strashnov installed monopile foundations on Hollandse Kust Zuid. Seaway Aimery, Moxie and Simar Esperança all worked on Hornsea 2 and the Seagreen project achieved an important milestone with the installation of the first jackets.

Backlog by Business Unit

Turning to slide 5, we had another good quarter for new orders, resulting in a book to bill ratio of one. This followed strong order intake in the second quarter and gives us a book to bill ratio for the first nine months of the year of 1.1. The largest award this quarter was Sakarya at over $750 million but we booked several smaller contracts in Norway as the high level of engineering work we have discussed in previous quarters, began to yield EPCI work.

We have presented here the backlog on 1st October so we can show the addition of OHT and give you some extra details of the backlog by year for each business unit. Overall, we have good visibility on revenue for the remainder of 2021, with $1.2 billion still to be executed in Subsea and Conventional, and $0.3 billion in renewables. For 2022, our backlog is in line with that at the equivalent point last year.

And now I will pass over to Ricardo to run through the financial results in more detail.

Financial Results

Ricardo Rosa

Chief Financial Officer, Subsea 7

Q3 2021 – Income statement summary

Thank you, John, and good afternoon, everyone. Slide 6 shows our income statement highlights. Third quarter revenue of almost $1.5 billion reflected higher levels of activity in both the Subsea and Conventional and Renewables business units, underpinned by good progress in executing major EPCI contracts.

Adjusted EBITDA of $185 million, after incurring net direct costs associated with COVID-19 of approximately $9 million, was up 63% from the prior year quarter. The adjusted EBITDA margin was 13% compared with 12% last year. This improvement largely reflects higher margins in Subsea and Conventional and Renewables due to high vessel utilisation in both business units, as well as the benefit of client settlements.

The net income for the quarter was $45 million, equivalent to earnings per share of 15 cents, in contrast to a loss of $43 million in the prior year.

Q3 2-21 – Supplementary Details

Turning to slide 7 for additional details of the income statement. Administrative expenses increased by $15 million against the prior year, mainly reflecting an increase in tendering costs. The depreciation and amortisation charge were stable at $107 million compared to the prior year quarter, as the impact of the new build Seven Vega and upgraded Seven Phoenix joining the active fleet was offset by reduced lease vessel costs.

The net operating income was $73 million in the third quarter, including a credit of $8 million associated with the downward revision to the cost of the group's resizing programme. This relates to the continued improvement in the outlook for the Subsea sector and associated resource needs.

The $29 million increase in the tax charge compared with the third quarter 2020, reflected the improvement in income before tax, combined with irrecoverable withholding taxes in certain jurisdictions.

Q3 2021 - Business Unit Performance

On slide 8, we summarise the performance of our operating business units. The Subsea and Conventional business unit generated slightly more than $1 billion of revenue in the third quarter, 59% higher than the prior year period, including significant contributions from Bacalhau, Sakarya and several projects in the Gulf of Mexico.

Renewables revenue was $377 million, up 40% compared with the prior year, reflecting a higher contribution from Seagreen offshore Scotland as well as the commencement of the Hollandse Kust Zuid project offshore Netherlands.

We recorded $19 million in revenue in corporate, representing the contributions from Xodus and 4Subsea, our autonomous subsidiaries.

Subsea and Conventional recorded net operating income of $70 million in the quarter compared to $15 million in the third quarter 2020. This reflected increased project activity and high utilisation of the subsea fleet in the Gulf of Mexico, Norway and Brazil.

The Renewables business unit moved from a breakeven position in the third quarter 2020 to net operating income of $5 million in 2021. Good progress in the offshore phase of the projects I have just mentioned was diluted by the impact of delays in executing work in Taiwan, as has been highlighted in our commentary on the results of the second quarter this year.

Q3 2021 - Cash Flow

Slide 9 shows our cash flow waterfall chart for the quarter. Net cash used in operating activities was $20 million after incurring a $230 million adverse movement in net working capital. This adverse movement resulted from the timing of milestone payments in the Gulf of Mexico, the protracted invoice approval process in the Middle East and delays to progress of renewables projects in Taiwan. Although we are expecting an improvement in the net working capital position in the fourth quarter, looking ahead to 2022, we expect the group's investment in working capital to increase as we execute large EPCI projects with adverse payment terms, particularly in the Middle East and Brazil. We have nevertheless the necessary resources or sources of liquidity to address the working capital needs of these projects and will draw on them if required.

Capital expenditure was $24 million, $10 million lower than the prior quarter, and lease payments made were $22 million.

At the quarter end, we had $300 million in cash and cash equivalents, a reduction of $90 million since the end of June. Our net debt position increased but remains a modest $99 million, including lease liabilities of $208 million.

Financial Guidance

To conclude, slide 10 shows our guidance for the full year. With a relatively high level of visibility on the remainder of the year, our guidance for 2021 is largely unchanged. We expect revenues to remain at an elevated level in the fourth quarter as we make progress in the procurement phase for certain major EPCI projects.

Our fourth quarter EBITDA margin will reflect the normal seasonal impact of vessel utilisation, particularly in the Northern Hemisphere. We continue to anticipate revenue and adjusted EBITDA to be above 2020 levels, with positive net income.

Our CAPEX expectation for 2021 has been revised upward by $20 million, to between $140 million and $160 million, after including shipyard expenditures of Seaway 7's new build vessel programme.

Turning to 2022, we expect a modest decline in revenue year-on-year while adjusted EBITDA is anticipated to be broadly in line with 2021. Capital expenditure for the group in 2022 is expected to fall within the range of $420 million to $440 million, mainly driven by Seaway 7's construction commitments for the Alfa Lift and the Vind1. CAPEX relating to the Subsea and Conventional business is forecast at $140 million to $160 million, marginally higher than 2021, driven by enhancements to certain PLSVs prior to the start of their new contracts.

I will now pass you back to John.

Strategy, Outlook and Prospects

John Evans

Chief Executive Officer, Subsea 7

The Subsea 7 Strategy

Thank you, Ricardo. On slide 11, we have a summary of our strategy, comprising the subsea field of the future and a proactive participation in the energy transition. Our progress since June touches upon four elements of this strategy and I will take each in turn, starting with integrated SPS and SURF.

Subsea Field of the Future – Integrated SPS and SURF

After our success in booking Bacalhau project in the second quarter, during the third quarter we had another big award for the Subsea Integration Alliance, the Sakarya project in Turkey. Together with some smaller contract awards this quarter, it has taken the SIA's market share since January 2020 to 75% by revenue. The award follows a strong collaborative early engagement process with Turkish Petroleum, which will enable an industry-leading timeline from discovery to first gas for a project of this scale and complexity. The project will utilise the engineering and project management expertise of our global project centre as well as the local team in Turkey and it will utilise several Subsea 7 vessels in 2022.

The pipeline of opportunities for integrated work remains strong. The Subsea Integration Alliance is the preferred supplier on Scarborough, which is due to sanction in quarter four, and is bidding on Lapa South West, BMC-33 and Bay du Nord.

Subsea Field of the Future – Systems Innovation and Enabling Products

Moving to slide 13, and our PLSVs in Brazil. In October we announced new contracts for three of our PLSVs working for Petrobras, namely the Seven Rio, Seven Sun and the Seven Waves. Each award covers a three-year period, giving us visibility through 2024. In addition, Seven Seas will be deployed to Brazil for approximately one year to complete the remaining stub period of the old contracts for the three vessels. Along with the Seven Cruzeiro, which will continue on its existing contract until the end of 2022, we will have five vessels working for Petrobras next year.

Each of the newly contracted vessels will undergo some modifications before commencing the new contracts, amounting to a total of approximately 240 days downtime and $30 million of capital expenditure. This is reflected in the guidance for 2022 that Ricardo has just discussed.

We are pleased with the outcomes of the PLSV tender in Brazil. It gives us long-term revenue visibility whilst retaining some exposure to a potentially improving PLSV market in 2024/25 onwards. This continuation of our successful relationship with Petrobras is a testament to the strong performance of our team and our vessels in Brazil.

Energy Transition – Renewables

On slide 14, we have a quick recap of our combination with OHT to create Seaway 7 ASA, which completed on 1st October. From Q4 onwards, we will be fully consolidating Seaway 7 into our results in the Renewables business unit, as well as reporting Seaway 7 separately. Stuart Fitzgerald and Mark Hodgkinson, CEO and CFO of Seaway 7, will be hosting an investor presentation straight after ours today and so, to avoid repetition, I encourage you to follow their results and listen to their conference call for more details of the outlook of our Renewables business unit.

Energy Transition – Sustainable and Efficient Operations

Finally, before we turn to our customary prospects slide, on slide 15 I want to highlight our recent commitments to achieve Net Zero by 2050 with a 50% reduction in emissions by 2035. These targets are the result of detailed planning by our Operations team in both Subsea, Conventional and Renewables. With 98% of our emissions coming from our fleet, the plan focuses on decarbonising our offshore activity based on increased digitalisation, hybridisation, shore power and the use of clean fuels. We will be reporting our progress over the coming years and our emissions data will be published annually in the sustainability report.

Outlook - Subsea Prospects

And so, we move on to the maps outlining prospects in subsea and wind over the coming 12 months. I will focus today on the Subsea map on slide 16 and let Stuart and Mark talk you through the prospects in wind shown on slide 17. The industrial recovery in Subsea and Conventional continues to gain momentum very much along the lines that we have discussed in previous quarters. The most active markets remain Brazil, the Gulf of Mexico and Norway. Overall, the value of tenders in-house has increased 70% since the low point in May 2020 and is up 20% from the levels seen before COVID in December 2019.

As well as active tendering, we are experiencing higher levels of early engagement and engineering and we talked last quarter about the increased headcount in these teams to meet demand. We have previously noted that given the long-term nature of our projects, this upturn will take time to feed through to higher vessel activity but based on our existing backlog and potential new awards, this is expected from the second half of 2023 onwards. In the meantime, we continue to plan to rationalise our fleet in 2022. Overall, we are encouraged by the way the recovery is progressing and remain confident in the outlook for Subsea and Conventional.

Outlook - Offshore Wind Prospects

On the next slide we have the wind prospects. As mentioned, I will leave the details to Seaway 7 to discuss but we continue to see strong demand centred on the US and UK, with high levels of bidding activity to date and awards expected from 2022 onwards.

Summary

To wrap up, I will turn to our final slide on page 18. In summary, our core Subsea business is experiencing a recovery focused on three key markets, with early cycle activities increasing compared with both the lows of 2020 and also when compared to the pre-COVID levels at the end of 2019. The recent awards of the PLSV contracts and Sakarya give us enhanced visibility for 2022 and we expect improvement in the dynamics of our offshore activities to make a positive impact on our results from the second half of 2023 onwards.

In offshore fixed wind, we have completed the combination with OHT and our renewables business unit to create Seaway 7. With a full suite of installation and heavy transport vessels, Seaway 7 is well placed with leading edge capabilities to address this high-growth market.

Finally, we are making good progress in ensuring we are well positioned in the emerging markets for floating wind and carbon capture that offer both Subsea 7 exciting long-term growth prospects.

With that, I will be happy to take your questions.

Q&A

Nick Konstantakis (Exane): Hi guys, thank you for taking my questions. Ricardo, good luck in what you decide to do next. I just want to start with you actually and a comment you made on the working capital investments that could increase next year. Do you mean that there would be further working capital adjustment versus where we are today, or we should look at a higher outflow versus what we have seen so far?

Then secondly, on the Renewables business, nice to see some positive contribution there. Would you say the 3Q performance is indicative of what you can deliver, and could you give us a bit of visibility on if you have any revenue, or EBITDA margin into next year and how to think about that?

And then lastly can you just remind us a little bit the basis on which the PLSVs were being bid? Just trying to understand around what is the cost base, what kind of EBITDA margins are we thinking? I know historically it was a 50% type of business, so just to get an understanding there as we think about the mix and the bridge into next year. Thank you.

John Evans: So, Nick, okay, I think there are three questions in there. I suggest that I will take the Renewables and the PLSV first and then I will hand over to Ricardo to talk about the working capital, if that is okay with yourself. The Renewables business in Q3 was performing well. In my prepared script, I talked about the various projects that we are working on. And we do expect that improvement in Renewables next year to continue. We hopefully have a clear path to conclude the work in Taiwan for next year. So, for us, we would expect to see that our ambition to have a $1 billion business at a 10% EBITDA should be well under way next year. We do expect the Renewables business to make an improved contribution next year.

In terms of the PLSVs, as I mentioned in my prepared script, we are pleased with the renewals that we have. There is a change in the structure of those contracts. There is some capital expenditure to spend on the assets to get them upgraded for the new three-year contract, which will be taking them out of service for a period of time next year, and that will tie in with their statutory dry docks. We also have to re-flag the vessels with a Brazilian flag, so there is some friction cost in that process, which all three vessels will go through next year as well.

But we are comfortable that we were awarded those. They were public opening so you can see what the day rates are for ourselves and our peers there, and we are very pleased that we have three years firm, with a one-year option on each of those.

And I think the other important thing to remember is each of those contracts had a stub (remaining) contract length (on the existing contract) of a few months. And we have been able to deploy the Seas into the market next year in Brazil to execute that work, which could have been lost had we converted the vessels immediately to the new contracts.

So, there are some changes in the vessels for next year, but we are very pleased with what we have got there, and I think it is a good position that we have got in the awards for those sectors. I will hand over then to Ricardo to talk a little bit about working capital.

Ricardo Rosa: Thank you John and good afternoon, Nick. As you say, we did see an increase in our working capital quarter-on-quarter of about $230 million and I have set out, in my prepared comments, the drivers of that increase. We are working hard on improving the position in the fourth quarter and we do expect an improvement in this period. I do want to assure you too that we have robust controls and processes in place to record and monitor our receivables and, importantly, pursue payment.

Looking ahead at 2022, we are expecting an increase in working capital and if I understood you correctly, because the line was somewhat muffled, yes, that does imply an increase in receivables that were delayed in cash inflow. And this is because we are going to be executing large EPCI projects with adverse payment terms, particularly in the Middle East with its customary extended payment terms, and Brazil, where we will be executing Mero-3 in particular for Petrobras.

As we have previously flagged to the market on a number of occasions, Petrobras has been insisting on extended payment terms from its EPCI contractors. All the major contractors have been awarded work with Petrobras, major EPCI work, and they therefore face the same challenge. On a more positive note, we are starting to see that Petrobras is proposing less onerous payment terms in more reason invitations to tender and we will continue, of course, to engage with them on the topic and convince them to consider better and more equitable payment terms for its contractors.

Lastly, I just want to emphasise again that in addition to the efforts and controls and processes we have in place, we have sources of liquidity to address the working capital needs of 2022 and we will only draw on them if they are required.

Nick Konstantakis: Thank you.

James Thompson (JP Morgan): Good afternoon gentlemen, thank you very much for the presentation. Just a follow-up on Nick's point there, on the working capital in the third quarter, Ricardo, are you able to give us some guidance about those three buckets: Gulf, the Middle East work and Taiwan? Which are the most significant there, which may well help us think about what it might look like in the fourth quarter?

My second question is really around Turkey. Obviously, it is a large project which is being executed in a very short timeframe. I was just wondering, John, if you could give us some reassurances around delivery here and what sort of protections you might have in place? Because we are reading pretty often about logistical issues, supply chain issues, things like that affecting global industries. Does that put you at risk in such a short duration project?

And my final question is really on vessel CAPEX. It was a little bit higher in 2022 than my estimates. Does that mean that really the bulk of the new-build CAPEX is coming in 2022 and therefore, 2023 should be materially lower? Thank you.

John Evans: I will do Turkey first and then Ricardo can cover the CAPEX and the working capital. As I mentioned in my prepared remarks, we have been working in an early engagement mode with Turkish Petroleum and Schlumberger on this opportunity, and that has been going for the bulk of this year. We have secured all the materials, prime materials, that we need for the project, including line, pipe, coating, umbilicals, flexibles; have all been ordered and were ordered in a sequenced approach with our clients' backing throughout that process. And we have a full team mobilised. We have subcontracted part of the pipeline work to one of our competitors and that is fully signed up as well as the commitment for our vessels.

We have been very engaged in the Subsea Integration Alliance model of working with our clients early and this is a great example of how that work manifests itself when you can get all the stars to align. So, we are very comfortable that we have a good project there. I was in Istanbul with Olivier Le Peuch of Schlumberger about a month ago when I signed the contract and spent time with the senior team there for the clients. It is a highly focused team, working very efficiently in a very aligned way to achieve quite an ambitious deadline, but all the right things have been done at all the right times. And so, for us, we look forward to executing that.

I will hand over to Ricardo to cover the CAPEX and the working capital.

Ricardo Rosa: Thanks John, good afternoon, James. Touching first on working capital, I do want to emphasise that although we are working hard to achieve an improvement in the fourth quarter and we are expecting it, do not expect a full reversal of the working capital outflow that has occurred in the first nine months of this year. I think that I have highlighted essentially three elements to the outflow: milestone payments in the Gulf of Mexico, and those we view as relatively short term and affect a number of clients.

With regards, more importantly, to the Middle East as I am sure you are aware, there is one client in particular that has a very complex and paper-heavy approval process. We have a detailed timeline and have assigned resources to accelerate, as much as possible, that approval process. And we are hopeful of improving our profile there but there is always an element of risk associated with it.

And lastly, I mentioned the renewables projects in Taiwan and, as you will know, progress in the fourth quarter tends to be adversely affected by the seasonality, or the bad weather, which affects the offshore execution installation of the various structures. So, on that front we do not expect to see resolution until 2022.

So, I hope that provides you some additional colour for what we are seeing in the short term. And I have always commented on what we are expecting for 2022 as a whole.

As far as capital expenditure is concerned, as John has mentioned, we are investing in the construction of the Alfa Lift and subsequent to that, the Vind1. And the expenditures that we are envisaging would essentially be disgorged sequentially with the bulk of the Alfa Lift being covered in 2022 as we are expecting delivery of the vessel, but most of the expenditure on the Vind1 will take place in 2023. So do not assume therefore that the capital expenditures will decline very significantly in 2023 with respect to those two new builds.

James Thompson: Okay. Thank you very much Ricardo for those answers. Just one final question, a small follow-up if I may. In terms of 2022 in the renewables segment, do you think it could be EBIT positive next year?

John Evans: As I said earlier James, it is well on its path to being an EBITDA business in the $100 million range is what we are targeting for that business, and we are well on that path next year.

James Thompson: All right. Thank you very much John, I will hand it over.

Vladimir Sergievskiy (Bank of America): Good afternoon and thank you for taking my three questions. The first one, would you be able to discuss profitability drivers, positive and some negative going into 2022 compared to this year?

Secondly, you are tracking to achieve a very strong order intake in 2021 already. Is there room to improve order intake further next year?

And then lastly, Ricardo, if you could perhaps give us some additional colour on the magnitude of potential net working capital outflow next year. Are we talking about low three-digit number, mid three-digit number? Any colour would be super helpful. Thank you very much.

John Evans: Okay, if I take your questions there, Vlad. So, order intake, as we show in our map of the world, we remain confident that there is a good pipeline of projects there for us and we feel comfortable that we will again achieve next year a book to bill of over one. And we can see that there are good opportunities there and we talked earlier about we expect to see Scarborough sanction, subject to Woodside and their partners, by the end of this year.

Pecan is a project in Ghana where we have been a favoured contractor for a couple of years and there will be an opportunity to see whether that project sanctions next year. And the usual pipeline that we talk about is very strong there. We also expect next year the (offshore wind industry's) contract for difference awards, which have been delayed in the UK. The UK government are pretty clear that they will be awarding their contract for differences in middle of next year and that then should allow probably half a dozen UK-based very large renewables projects to be awarded to the industry.

We are also seeing the renewables in the US market, where there is, again, half a dozen very large projects there running in parallel. Our discussions with clients say that they will crescendo next year.

So, we feel comfortable. We have had a very good year this year and we expect to see next year being certainly as good as this year, hopefully better.

Profitability drivers for 2022. I think 2022, just thinking about it in the mix of the work that we do, as I explained to James earlier, we expect to see renewables doing better next year and hopefully the challenges that Taiwan threw at us this year will not reoccur. But we see that our offshore fleet is a smaller fleet next year, as we have discussed consistently that we would reduce the fleet for 2022. And that is the result of the no awards of major projects in 2020, meaning there is not much work taken offshore in 2022.

So, we will adjust the fleet size in Subsea and Conventional to suit. And as I discussed earlier on the PLSV that Nick had asked, we have all three of our PLSVs out of service for a period of time next year whilst they have their dockings and CAPEX, which then allows them to start a new three-year period ahead.

So, we will see the profitability in oil and gas go down a bit next year and we expect to see Renewables coming up. And that is why we are guiding next year that our EBITDA is broadly in line with this year.

So, they are the moving parts in next year. And I will hand over to Ricardo on the working capital.

Ricardo Rosa: Yes, Vlad, your question has been couched in terms that are difficult to reply to with any clarity because I do not know what you mean by low to mid triple digits. But assuming that it is taking the triple digits, I would say that it is in the order of low to mid.

Vlad Sergievskiy: Understood. Thank you very much for the answer, gentlemen.

Frederik Lunde (Carnegie): Hi there and congratulations on the strong quarter. Can you comment a bit on how you think on cash allocation next year, given the build in working capital but also Seaway 7 being partly on its own balance sheets?

John Evans: Frederik, we, as always, as a company, have three sides of a triangle that we have always looked at. The first is invest in the business, and that is why we are investing in Seaway 7, because we can see a very clear lack of supply and a huge increase in demand in that Renewables business in 2025, 2026 and 2027, and our discussions with our renewables clients are very clearly now focused around that gap. That is why those assets are being invested in for that opportunity.

The second one is we have always had a very strong balance sheet and we continue to protect our balance sheet. And lastly, our board will sit down, as we always do, to look at returns to shareholders. We have been pretty consistent year-on-year in always having a view on that, be it through a share buyback or through dividend, and that conversation will take place, I am sure, in the first quarter of next year. And just to remind everybody, over a decade, we have given $2 billion back to our shareholders and we are clear in our minds that there will be shareholder returns as a key priority over the next few years for us.

So, I think the key thing for us is the renewables. It is about targeted investment in specific top-end assets that are very focused on that gap that is very clearly opening up from 2025 onwards, and we also know that there is another big gap opening up from 2030 as well. So that is how we think about capital allocation inside the group at the moment.

Frederik Lunde: Okay, thank you.

Michael Alsford (Citi): Hi there, good afternoon. Thanks for taking my question. I have just got one really, just on the Renewables business around the supply chain in the US. It is obviously a big pipeline, but I am just wondering how you are getting comfortable with managing what are clearly extra supply chain challenges in the US, with the Jones Act, etc., when it comes to bidding for those projects going forwards. Thanks.

John Evans: Thank you Michael. Well, two things, I think. We have been in the US for over 30 years, so we are fully conversant with Jones Act and we understand the complexity of that and the subtlety of how that works. But the one thing that is very important for us again is the fact that we also have in the Alfa Lift the ability to ship materials from Europe or from Canada into the American markets, which again is a certain way of working through the Jones Act complexities. And we also are aware of the fact of how to work in the Jones Act and how that can be orchestrated.

We are also looking at our US renewables bids in making sure that vessel owners who have been partners for us for over a decade, 15 years in some cases, in the US, work with us on those renewables' projects. So again, we very much take a proactive approach of making sure that we have Jones Act-compliant support vessels from existing suppliers that we are very comfortable to work with and they are comfortable to work with us, as we have used in oil and gas, as well as looking at the benefits of potential transshipment opportunities that the Alfa Lift allows us to do.

Michael Alsford: Thanks John. And just maybe a follow-up on the fleet for next year on the more Subsea part of the business. Could you just remind me, or us, of what exactly you are going to be doing to manage the fleet down next year? Is it simply just not chartering third-party vessels or can you maybe elaborate on how you are going to scale down to then scale back up again in 2023 and beyond? Thanks.

John Evans: We will be returning a number of chartered tonnage to their owners next year and then we will use the flexibility that we have in the market then, as the market picks up from mid-2023 onwards, to bring tonnage back on board as we need to. So, it is really around the last step of what we discussed 18 months ago with the markets.

And I think it is very important to remember there is two different things actually happened here. In terms of the offshore fleet, we are pretty much continuing downwards in terms of adjusting to suit, and that is about working the asset base that we have at a very high level next year. But equally, then we see, as we have discussed in the last couple of quarters, the need for project management, engineering, supply chain skills, fabrication skills, coming into the business to be ready for this uptick in work that we are seeing from mid-2023 onwards.

And let us remind ourselves what that will look like. We have firm work in Brazil through Bacalhau and Mero-3 and we continue to bid for future projects that come off the back of that in the sequence of bidding that is coming. We already have Barossa in Australia and we do expect to see Scarborough sanction this quarter, so that will give continuity of work down in Asia and in Australia. And last but not least, we are getting ready for quite a round of awards in Norway in 2022, which is around a tax break that exists there. We are currently working as exclusive partner with Aker BP on its portfolio and those projects will come to sanction next year. And we are working with Equinor on a set of bids that will come out there.

So, we are again tuning the fleet to where we expect it to be in terms of awards in 2022 that then lead to work back end of 2023, early 2024. So that is the exercise that we are doing, Michael, it is a controlled contraction to then go into growth mode afterwards.

Michael Alsford: Thanks for the colour, John. Cheers.

John Evans: Well, thank you very much. What I would like to do just in closing though is to thank Ricardo for his very much valued service to Subsea 7 over just a shade under a decade. I have been a colleague with Ricardo throughout his time here in Subsea 7 and I very much value Ricardo's support and input into the business over the last decade. We very much wish Ricardo well in his retirement and we look forward to Mark joining the team and he will take the next quarter's call.

I am sure each of you will get an opportunity to speak individually to Ricardo and to make your wishes known, but we very much thank you, Ricardo, and look forward to a healthy and prosperous retirement. Thank you, Ricardo.

Ricardo Rosa: Thank you John and good luck everyone in your respective careers.

John Evans: Thanks a lot, and we look forward to talking to you in Q4.

[END OF TRANSCRIPT]