Fourth Quarter and Full Year 2021 Results

Thursday, 3rd March 2022

Introduction

Katherine Tonks

Investor Relations Director, Subsea 7

Welcome

Welcome, everyone. With me on the call today are John Evans, our CEO, and Mark Foley, our CFO. The results press release is available to download on our website along with the presentation slides that we'll 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'll now turn the call over to John.

Opening Remarks

John Evans

CEO, Subsea 7

Full Year 2021 Results

Thank you, and good afternoon, everyone. I will start with the highlights from 2021 before passing over to Mark to cover the financial results.

Turning to slide three. Revenues improved 45% year-on-year to $5 billion and our Adjusted EBITDA margin was broadly stable at 10%, giving us an EBITDA of $521 million, up 55%. Operating cash flow was $293 million, and we generated free cash flow of $127 million, resulting in net debt, including lease liabilities of $55 million.

As we announced with our results, the Board has decided to adopt a regular dividend policy. It has approved a total return to shareholders of $100 million in 2022, comprising a regular dividend of NOK1 per share and share repurchases of approximately $70 million. Both the regular dividend policy and the buyback mark the Board's confidence in the financial position and outlook for the Group.

During the year we had good fleet utilisation of 83%, with activity centred on Norway, the Gulf of Mexico and Brazil. Our large EPCI projects such as Seagreen, Bacalhau, Mero-3 and Sakarya are all making good progress. We ended 2021 with a healthy backlog of $7.2 billion, after order intake of $6.1 billion. We made good progress in our strategies for both the subsea and wind businesses and increased our presence in the floating wind market. I'll discuss these a little more in detail later.

Operational Highlights

Turning to slide four, and our recent operational highlights. The engineering and procurement phases of our major EPCI projects are on track. In Brazil, fabrication for the Bacalhau project is progressing well, whilst on Mero-3 engineering is underway. In Turkey, we have started preparatory site works for Sakarya Phase 1.

In Norway, we tested and commissioned the electrical heat-traced flowline on Aerfugl 2, and we had several vessels, including Seven Vega, working on Johan Sverdrup 2, although we incurred some downtime for weather.

In the Gulf of Mexico, we towed out the King's Quay FPU and the Seven Navica, Arctic and Oceans, all contributed to installation activities. At Jack St Malo, the production of flowlines and risers were completed and loading out of equipment to Seven Oceans began.

In Renewables, the Seagreen project remains on track, with 10 foundations installed by the year end 2021 and a further 11 installed in January. Delivery of the cables to our base in Scotland is on track and the installation of the first cables has commenced. The remaining foundations and the inner array cables will be installed in 2022, as planned.

Elsewhere, Seaway Strashnov installed 34 monopile foundations on Hollandse Kust Zuid, with the remaining 105 to be installed during 2022. Seaway Aimery, Moxie and Simar Esperanca all continued to work on Hornsea II.

Backlog by business unit

Turning to slide five. We had a very good year for new awards at $6.1 billion, up 38% year-on-year, resulting in a book-to-bill ratio of 1.2. Q4 awards included Scarborough in Australia and the three-year PLSV contracts in Brazil. These were boosted in the fourth quarter by a high level of escalations.

By the year end, the backlog had reached the highest level since 2015 and we have good visibility on revenue for 2022 with $3.4 billion to be executed in Subsea and Conventional, and $0.9 billion in Renewables. Our backlog for execution in 2023 is $2 billion, and that is nearly 30% above the level for the equivalent period this time last year.

And now I'll pass over to Mark to run through the financial results in more detail.

Financial Review

Mark Foley

CFO, Subsea 7

Fourth quarter 2021 – business unit performance

Thank you, John, and good afternoon, everyone. I'll begin the financial results review with some details of business unit performance in the fourth quarter and full year, before returning to the Group income statement for some additional comments.

Slide six summarises the fourth quarter performance of our business units. Subsea and Conventional generated $1 billion of revenue, 34% higher than the prior year with notable contributions from Sakarya, Bacalhau, projects in the Gulf of Mexico and Saudi Arabia.

Renewable's revenue was $326 million, up 39% year-on-year mainly driven by higher revenues from the Seagreen project, as well as contributions from Yunlin, Hollandse Kust Zuid and Hornsea II.

Adjusted EBITDA for Subsea and Conventional was $133 million, broadly flat year-on-year, equating to a lower margin of 13%, compared with 18% last year. This decline was due to the early phase of projects in the portfolio, lower client settlements as well as some costs associated with waiting-on-weather in Norway.

Adjusted EBITDA for Renewables was $10 million, in line with the prior year period. This compares with the Adjusted EBITDA reported by Seaway 7 of $30 million. The $20 million difference reflects a charge on a wind project in Taiwan, whose economic interest was retained by Subsea 7 as part of the combination with OHT.

After depreciation and amortisation, net operating income for Subsea and Conventional was $50 million compared to a $37 million loss in the prior year quarter, which included $94 million of asset impairment charges, while Renewables recorded a net operating loss of $12 million compared with a loss of $2 million in the prior year.

Full year 2021 – business unit performance

Turning to the full year. Subsea and Conventional revenue increased 33% to $3.7 billion, while revenue from Renewables doubled to $1.3 billion, representing 25% of the Group revenue. The greatest contributions in the year were from Seagreen in Renewables and the Bacalhau, Mad Dog 2, King’s Quay and Sakarya projects in Subsea and Conventional.

Adjusted EBITDA for Subsea and Conventional was $468 million, up 10% year-on-year, but equating to a lower margin of 13%, compared with 16% last year. This was mainly due to the execution of early phases of projects in the portfolio awarded at a relatively low margin in prior years, low client settlements on certain projects, partly offset by lower net COVID-19 costs.

Adjusted EBITDA for Renewables was $4 million, down from $12 million in 2020 due to charges in Taiwan resulting from operational delays, partly offset by good progress on Seagreen. After depreciation and amortisation, full year net operating income for Subsea and Conventional was $103 million compared to $48 million in the prior year quarter, excluding $294 million of impairment charges, mainly related to vessels.

Renewables recognised a net operating loss of $60 million compared with a loss of $40 million in the prior year.

Income statement summary – Q4 and FY 2021

Slide eight shows the summarised income statement. The Group’s fourth quarter revenue was $1.4 billion, 35% higher than the prior year period. Adjusted EBITDA of $143 million was down from $165 million last year. This resulted in an Adjusted EBITDA margin of 10%, about 600 basis points lower than the margin achieved in the prior year quarter due to the phasing of projects in their early stages, some downtime for weather and charges relating to projects in Taiwan. The prior year fourth quarter benefited from the release of restructuring provisions of $13 million.

Turning to the full year, revenue in 2021 was $5.0 billion, up 45% year-on-year. Adjusted EBITDA was $521 million, up from $337 million in 2020. The improvement included the reversal of restructuring charges of $37 million in 2021 compared to a charge of $86 million in 2020.

Net COVID-19 costs of $27 million in 2021 were lower compared to $70 million incurred in 2020. Adjusted EBITDA margin was 10.4%, up slightly from 9.7% in 2020, while the underlying margin reflected the execution of projects awarded during the downturn, as well as the phasing of certain projects in their early stages, and charges related to delays on projects in Taiwan.

In 2021, net income benefited from the absence of asset impairment charges on goodwill, property, plant, and equipment and right of use assets that reflected the COVID-19 induced deterioration in the outlook for oil and gas markets.

Overall, net income for 2021 was $36 million compared with a net loss of $1.1 billion in the prior year.

Supplementary details – Q4 and FY 2021

Turning to slide nine for supplementary details of the income statement. Administrative expenses in the fourth quarter improved $10 million year-on-year driven by impairment reversals of $4 million compared to a $14 million impairment charge in 2020, partly offset by the addition of administrative expenses related to the combination with OHT.

Fourth quarter depreciation and amortisation increased slightly to $112 million from $105 million, mostly due to the addition of OHT's five heavy transportation vessels to the active fleet from 1st October. Net finance costs fell by $3 million mainly due to lower charges related to lease liabilities, while taxation was $16 million, representing an ETR of 81%, elevated by the mix of profits in certain jurisdiction and irrecoverable withholding taxes.

Moving to the full year, administration expenses were $228 million, down $13 million year-on-year benefiting from impairment reversals of $4 million in 2021 compared to charges of $18 million in 2020 and credits related to restructuring of $3 million in 2021 compared to charges of $11 million in 2020.

Depreciation and amortisation were $444 million in 2021, or up $2 million year-on-year and included the OHT vessels in the fourth quarter. Net finance costs were $15 million in 2021, down $5 million year-on-year, mainly due to lower charges related to lease liabilities. Taxation of $64 million, equating to an effective tax rate of 64%, was driven by the mix of profits in certain jurisdictions and irrecoverable withholding taxes.

2015 – 2021 costs overview

On slide 10, we revisit our cost histogram that shows our costs segmented into four categories.

In 2020, you saw the impact of the cost reduction plan as we re-aligned our business in response to the COVID-19 pandemic and associated global economic slowdown, but costs have increased in 2021 in line with the industry recovery.

Direct project costs are a function of the volume, mix and phasing of our activities and the pricing environment for procurement. In 2021 we saw a significant increase in our procurement costs, driven by the mix and phasing of our project portfolio, particularly our largest EPCI projects, for example, Sakarya, Bacalhau and Seagreen.

Our personnel costs increased to approximately $1.1 billion in 2021 as we expanded our tendering and engineering teams to address the sharp uptick in industry activity. Personnel costs also include the extra gross costs incurred relating to COVID-19. Such costs include the need to have standby crews and the quarantining of crews in accordance with local regulations.

Vessel and other costs increased to approximately $400 million. We ended the year with 34 vessels in our active fleet, up from 30 at the end of 2020, with the addition of five heavy transportation vessels from OHT, partially offset by the recycling of Seven Eagle.

Full year 2021 – summary cash flow

Slide 11 shows our cash flow waterfall for the full year. Net cash generated from operating activities was $293 million, including a $202 million build in working capital. The latter was driven by the timing of milestone payments and working capital requirements associated with projects in the Middle East and delays in payment in Taiwan.

Capital expenditure was $167 million, but well below our depreciation and amortisation of $444 million, reflecting the absence of newbuild vessels in the year. During the year, we incurred $93 million in lease payments, mainly related to chartered vessels, and $93 million relating to dividend payments and share repurchases.

In the fourth quarter we drew down $200 million from the Group's UK export finance facility in advance of the anticipated working capital build in 2022. At the end of the year, we had $598 million in cash and cash equivalents and moved to a net debt position of $55 million, including lease liabilities, compared to a net cash position of $49 million, including lease liabilities at the end of 2020. The Group's liquidity was $1.6 billion, which included $956 million of undrawn borrowing facilities.

Financial guidance

To conclude, slide 12 shows our guidance for the full year. Before I comment on the full year, I want to highlight that the first quarter has a heavy, planned vessel maintenance schedule with 10 vessels undertaking dry docking, modifications, or maintenance. This is in addition to the Northern Hemisphere weather seasonality normally experienced during the quarter that results in lower activity.

Quarter one Adjusted EBITDA will be lower than prior comparable periods, however, full year Adjusted EBITDA is expected to be in line with or better than last year.

Returning to the full year. Revenue is expected to be broadly in line with 2021, while Adjusted EBITDA, as mentioned a moment ago, and net operating income are expected to be in line with or better than last year.

Our administrative expenses are expected to be in region of $240 million and $260 million. Depreciation and amortisation expense is expected to be between $460 million and $480 million, while net finance costs are expected to be between $20 million and $25 million. Taxation for the year is anticipated to be in the range of $35 million to $45 million.

As we announced last quarter, our capital expenditure in 2022 is expected to fall within the range of $420 million to $440 million, inclusive of approximately $280 million relating to Seaway 7's new build vessel programme.

I will now pass you back to John.

Strategy Overview

John Evans

CEO, Subsea 7

Strategy focus areas

Thank you, Mark. On slide 13, we have the summary of our strategy, comprising the subsea field of the future, and a proactive participation in the energy transition. In the next two slides, I'll do a recap of our successes this year before turning to our strategy for capital allocation.

Strategic progress: subsea field of the future

Our strategy for the subsea field of the future revolves around four focus areas: early engagement, systems innovation, our integrated offering, and digital delivery.

Early engagement has become a cornerstone of our relationships with clients, allowing us to work closely with them to help optimise their field developments and has been particularly important as supply chains have tightened. Our engineers and supply chain management teams work with our clients to navigate bottlenecks to ensure they get access to the right capacity at the right time.

About 60% of our SURF EPCI contracts awarded in 2021 followed early engagement and seven out of ten awards in Norway were the result of working in close partnership with our client.

2021 was also a significant year for innovation in Subsea 7. Our state-of-the-art pipelay vessel, Seven Vega, joined the fleet and has been key to our delivery of our electrical heat traced flowlines. With enhanced flow assurance, EHTF allows longer tie backs, as well as reducing the carbon footprint of satellite developments.

Moving to Integrated SPS and SURF, and our Subsea Integration Alliance with OneSubsea. We offer our clients one interface and a streamlined service from design to commissioning of entire subsea developments. The feedback from our clients has been excellent and the numbers speak for themselves, with a 76% share of integrated awards by revenue since January 2020. The integrated offering is gaining popularity with our clients, and in 2021, 62% of our SURF awards were integrated.

Finally, we are rolling out digital strategies across several aspects of our business, delivering an improved performance for our teams and an enhanced experience for our clients. A good example of this has been the launch and rollout, in 2021, of our 4insight system, which uses big data and machine-learning to improve the uptime of our vessels.

Strategic progress: energy transition

Moving to slide 14 and our strategy of proactive participation in the energy transition. The Renewables piece of this strategy is probably well-known to you by now with the creation of Seaway 7 ASA, as well as our participation in the Salamander floating wind joint venture and investment in Nautilus Floating Solutions.

Floating wind is gaining momentum, with several demonstrated projects under way and being tendered. Other exciting markets are carbon capture and hydrogen. We won our first carbon capture award for Equinor's Northern Lights project in 2021 and we are bidding for further projects, that we'll highlight in a moment.

Our Hydrogen strategy is at an earlier stage, and we gain valuable insight from our subsidiary, Xodus, which has worked on over 30 hydrogen studies, as well as over 30 carbon capture studies.

Of course, as well as embracing new energy markets, a very important part of our energy transition journey is helping to reduce the carbon emissions of clients' oil and gas projects, as well as reducing the emissions of our own fleet.

In 2021, our Carbon Estimator tool is now incorporated into all our studies. It allows our clients to estimate the carbon emissions from different permutations of field layouts and helps them to optimise their developments. And the Carbon Estimator was used to optimise 64% of contracts awarded to us during this year.

Finally but perhaps most significantly, in 2021 we aligned with the goals of the UN Paris Agreement to target Net Zero by 2050, with a 50% reduction in our Scope 1 and Scope 2 emissions by 2035. Our vessels account for over 90% of our Scope 1 and Scope 2 emissions and we aim to reduce their carbon footprint through a combination of hybridisation, shore power, clean fuels, and digital efficiency.

We will report on our progress in our Sustainability Report for 2021, which we will publish in mid-March.

Capital allocation framework

Wrapping up this strategy section let's turn to slide 16, where we clarify questions about capital allocation that we've heard often from investors and analysts over the past months.

What we have here is a simple schematic to highlight on the one hand, the use of cash from the Subsea and Conventional, and on the other hand, the funding strategy of Seaway 7.

Our Subsea and Conventional business unit has a young fleet of vessels that will capture opportunities in the rising oil and gas market, whilst requiring reduced levels of capital investment. With a solid industry outlook, stable competitive landscape and with investment well-below D&A, this business is well-positioned to generate significant free cash flow.

The priority for this cash flow will be shareholder returns, starting, as we announced today, with a regular dividend. The mechanism and magnitude of additional cash returns will be left to the discretion of the Board and assessed annually, but this year includes a $70 million share repurchase.

On the right-hand side, we have Seaway 7, which we currently have a 72% stake, and it is our intention to always hold at least 51% stake. Seaway 7 is, as you know, focused on the high growth fixed offshore wind market and has two new vessels under construction which are due for delivery in 2023. It is Seaway 7's intention to fund these, and any future new builds, independently of Subsea 7.

Of course Seaway 7's debt will be fully consolidated onto Subsea 7's balance sheet, but I hope this slide illustrates our intention to keep a relatively separate underlying structure, bar some working capital support from Subsea 7 may provide to Seaway 7, whilst this establishes itself with an independent capital structure.

And with that back to our usual outlook slides, starting with the prospects for the subsea market on slide 17.

Outlook – subsea prospects

We were very pleased with our strong order intake we reported in 2021, and indicative of the recovery that is underway in the oil and gas industry. Tendering remains very active, and we are optimistic that 2022 will be another very good year for new awards.

At the core of this recovery, the most active markets remain. Brazil, where we have a long list of prospects for both Petrobras and IOCs; the Gulf of Mexico, with multiple tie-back projects in the tendering pipeline; and Norway, where the tax incentive should lead to a high level of awards this year.

We see pockets of improving activity outside these regions. There are a handful of projects in West Africa that are pushing ahead; bidding in Saudi Arabia remains active; and we are now working on the tender for Sakarya Phase 2, Turkey, a follow-up to our $1 billion Phase 1 project.

In 2022 we also expect to see further carbon capture awards, as capital allocated to this emerging market by our clients begins to accelerate. The first such projects we will bid are in the UK, for the Northern Endurance Partnership in Humberside and Teeside. The Endurance field that will act as the CO2 store lies approximately 100 kilometres offshore from the Humber, are expected to award to the market 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. I'll leave these and the detail to Seaway 7 to discuss. But we continue to see strong demand, centred on the US and UK, with awards expected to the industry this year and onwards. We are also expected to bid two floating wind demonstration projects in Korea during 2022.

Summary

So to wrap up, we'll turn to our final slide on page 19. While it is true to say that some of the challenges of COVID-19 continue to affect 2021, it was a year of strong recovery for Subsea 7 that leaves us very well-positioned to deliver, as the cycle develops. This is the view that is shared by the Board and underpins their decision to introduce a regular dividend.

For Subsea and Conventional business, we have already seen order intake reach the highest levels we've seen for several years, and tendering remains very active. In Renewables, after a hiatus in awards in the UK offshore wind market, the CFD round in first half of this year should unlock opportunities, whilst in the US, some large projects are scheduled for award to the industry this year.

Of course, as we've heard from companies around the globe, raw material exposure and supply chain management becomes critical. Whilst no one can be totally immune, we believe we have measures in place to mitigate these risks as much as possible.

Finally, the emerging energy markets that support the long-term outlook for Subsea 7, are gathering momentum with demonstration projects in floating wind and tenders for carbon capture projects. Overall, we believe that Subsea 7 is well-placed to capture opportunities in today's evolving and dynamic energy markets.

With that, we'll be happy to take your questions.

Q&A

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your questions, please press the pound or the hash key. Once again, it's star one if you have any questions or comment at this time. We have the first questions coming from the line of Sasikanth Chilukuru from Morgan Stanley. Please ask your question.

Sasikanth Chilukuru (Morgan Stanley): Hi. Thanks for taking my questions. I had three please. The first one was, I was wondering if you could provide some more colour on how the tendering activity has improved in recent weeks, especially in the Subsea and the Conventional business? How the discussions with clients have changed over the course of this year so far, and how confident are you in improving your order intake in 2022 relative to 2021? The second one related to the offshore wind project, the Formosa 2 project. You've highlighted, you've retained the costs recognised for the Taiwan offshore wind project within Subsea 7. I suppose, this is the Formosa 2 project. Can you update – can you give us an update on how the project is progressing? What contingencies you have included in your 2022 EBITDA guidance related to this project? And previously, you have highlighted that you're in discussions to recover the incremental costs from the clients in accordance with your contractual terms. How are these discussions progressing? And finally, if you can give us guidance or colour on the expectations of working capital in 2022? Last quarter, it was highlighted that there will be a working capital build in 2022. Is it still the case? And if you can guide us on the expected magnitude of the potential working capital outflow? Thanks.

John Evans: Sounded like more than three questions there, but I'll try to answer them as best I can. But good to talk to you again. So, as I mentioned in my prepared remarks, we are certainly seeing a lot of activity, with a lot of tendering moving. We are very much in a place where we are seeing improvements in terms of pricing on every tender that we submit.

We know that we are very well-placed for quite a large portfolio of projects in Norway to come this year. And those discussions and clarifications are moving ahead, as well as certain bids to the market that Equinor will do in the first half of this year.

As I mentioned, in my prepared remarks, we're working on the second phase of Sakarya, so that our client is accelerating the next phase of Sakarya, and there's no let-up in Petrobras' bidding process. You'd have seen that Búzios 8 was publicly bid, only two of us bidded and Subsea 7 is the lowest bidder on the public opening on that.

So we're seeing a number of factors happening, limited number of people bidding tenders, a speeding up of the number of tenders that are happening there. So having the largest fleet in this industry is really, really helping us at the moment, because it allows us to be very clear about where we want to place our assets.

I've talked about this in previous quarters. Our aim was to have one of the big pipelayers down in Australia, and Barossa and Scarborough coming together at the end of first quarter helps us there.

In Brazil, we wanted to have one of the big pipelayers for Bacalhau, Mero-3, and hopefully Búzios 8 fits that. We will have one big pipelayer work in between Norway and the Gulf of Mexico. And lastly, then one of the pipelayers in Africa and the Middle East. And again, we can see those pieces of the jigsaw fitting together.

So main message is, it's speeding up. The main message is, is that we're very well positioned. And we get many questions why haven't the largest fleet in the world – well, having the largest fleet in the world helps you when the market is quite strong.

Your second question on Formosa 2. Formosa 2, because we were in the middle of a very complex situation in 2021 in Taiwan, Subsea 7 retained the economic interest of that project at the time [of combination with OHT]. We have since clarified our remaining scope, our remaining renumeration and our remaining schedule with our client. And we expect to close that project physically, hopefully by the end of Q2 2022.

We are going back to work this week, as we speak, with the remaining scope that we've got. We did incur, though, some further increased costs in the supply chain, because we have this entire wave of projects that were held up in 2021 [in Taiwan] that are now on top of a bunch of projects that are also to be done in 2022. We have now secured all our third-party assets that we need in Taiwan for this year. And that adjustment was taken in quarter four.

So we expect to be able to give you an update on how the project goes during the year, but we expect to be materially complete by the middle of 2022.

And on working capital, Mark can give you an update.

Mark Foley: Yes. Thank you, Sasikanth. Working capital improved by around $100 million in Q4. We communicated in our Q3 earnings call that we expected an improvement in quarter four, which indeed materialised. However, we do expect a working capital build in 2022 due to the increased procurement activity of Mero-3 in Brazil, together with the significant activities that we have planned for the Middle East.

So we reiterate our guidance provided in November that the working capital build in 2022 will be in the low-to mid- hundreds million dollars. What I would say is that we are actively working on this area. And to give an example, in January, I and others had a very constructive call with the Petrobras CFO. We had lobbied Petrobras very hard to seek improvements regarding working capital requirements. As ever with Petrobras, it was a very constructive conversation.

And what I would say is we are pleased with the changes that Petrobras made in the most recent tender on Búzios 8. Elsewhere, optimising cash management as a focus, as I said at some moments ago. So again, our guidance remains the same as we communicated in November regarding 2022 for working capital.

Sasikanth Chilukuru: Great. Thank you.

Operator: We have the next questions coming from Haakon Amundsen from ABG Sundal Collier. Please ask your question?

Haakon Amundsen (ABG Sundal Collier): Yeah. Hi, guys. Thanks for taking my question. Just a question on the Subsea and Conventional margin development. I don't know if you want to guide specifically. But can you give some colour on the movement into 2022 and 2023 relative to '21, please?

John Evans: Well, we already discussed before Haakon on margins is, we expect to see from middle of 2023 onwards the benefit of newer projects coming into the mix when we physically go offshore. So that position is certainly starting to fit together with the work that we bought in in Q4 and work we expect to bring in this year.

As we guided in our press release and our comments, we expect to see 2022 EBITDA to be in line or better than 2021. As Mark touched on, we have a large number of vessels under dock and repair in quarter one. So I will see that as the year develops, we can certainly give the market more clarity. But directionally, it's improving and we're seeing that on the pricing that we're seeing.

And linked to what Mark has just said, on Búzios 8 the working capital is substantially better than Mero-3. So we're seeing two things happening here. We're seeing our margin improved for our outer year projects, and we've seen the entry ticket in certain locations such as Brazil improve as well.

Haakon Amundsen: All right. That's helpful. Just to understand your guidance, because when you guide for potentially improving EBITDA in 2022, of course, that's the consolidated numbers. And I guess, Seaway 7 appears to be expanding its EBITDA. So I just wondered if you can give some colour on – should we expect the Subsea EBITDA to expand as well, or is it just the consolidated number and the Seaway 7 number that we should expect to improve? Thanks.

John Evans: Yeah, we've guided where Seaway 7 should be this year, which is a $1 billion business and heading towards its 10% EBITDA. We can hopefully see the piece of that coming together this year. We do need to remember that 2022 offshore is a relatively quiet year for us, because very few projects were awarded to the market in 2020. We've adjusted the size of the fleet. And as Mark has discussed, we have a large volume of low margin procurement on all these future projects for '24 and '25 going through the books.

So the mix is changing, but directionally we're very comfortable with which way this is all heading.

Haakon Amundsen: All right. Thank you. That's it for me.

Operator: We have the next questions coming from James Thompson from JP Morgan. Please ask your question.

James Thompson (JP Morgan): Great. Thanks very much. Good afternoon, gents. Just a follow-up there on Brazil, John. I mean, you said that Búzios 8 T&Cs had improved, something you talked about last quarter looking for that? Do you think that's a sort of permanent adjustment that Petrobras is making? Or is this something that's kind of very specific to this particular project?

John Evans: I hope directionally it's heading in the right way. They only had two bids on that opportunity, and – as the market starts to tighten up. I think they are acutely aware that they have used the cycle to get some better working capital in on previous bids, which all the main players were taking at the time.

But I think all of us are pretty clear now in the market that we should see some improved working capital there. So, I believe that certainly in the message the Mark and I gave to the executive members that we discussed is that Búzios 8 needs to improve, but remaining list of projects also need to improve, that this was a temporary move that Petrobras were quite smart in taking the downturn in the market to achieve.

But we should hope to see. Each bid comes along. The Petrobras system is very open. You can send as many questions in as you want on each bid. And we have been banging that drum for a number of quarters about the very, very important side of making sure that the working capital was fair and proportionate for the risks that we take.

James Thompson: Okay. That's helpful. More of a general question. COVID obviously had a big impact last year. Can you talk maybe about the sort of changes? Is it – do you feel like operations are going to be just a lot easier now this year in general?

John Evans: I think if we keep COVID very simple. In 2020 the entire world did exactly the same thing all the world around. Our crews, who are effectively mariners, were free to move around the world on sea men's tickets. And it was a very difficult year, but logistically simpler. [The ability to move in and out of countries in] 2021 is dependent on the colour of your passport, which countries have vaccinated and which countries hadn't. So 2021 was exceptionally *complex* given the mix of nationalities that we have on our vessels.

This year, we're actually seeing in places like Taiwan and Brazil, a slightly different problem. All our crews are fully vaccinated and very healthy and no major issues on our vessels. But we still have some regulations that were put in place quite rightly 18 months ago, that say if you have a single case of COVID on your vessels, then you need to change the entire crew out.

So it's that sort of lag between regulation and medical risk and reality that is one of the challenges our industry is facing at the moment. But I expect to see that normalise as time moves on.

James Thompson: Okay. Just two small questions for me. One is, just in terms of the sort of renewable piece. I mean, just wondering if you could talk a little bit about 2023. I mean, in terms of the bids that are coming up for this year, is there much that you can sort of fill in from a revenue perspective or expecting a pretty significant drop in revenues in 2023? And then, just in terms of your other projects that are ongoing, just wondering if you can give us an update on the Sangomar project? I don't hear that much about it.

John Evans: Okay. Renewables, as I touched a little bit in my prepared remarks, James, the biggest market for Renewables is the UK sector. The UK government, for political reasons, decided to delay the contract for different auction rounds by a year. So a large group of UK projects that are on the diagram were delayed by a year, but we do expect them to be awarded by the middle of this year in the market.

But what that means is, physically offshore next year, it'll be a quieter market than we expected. So we do expect probably the revenue in the Renewables business to go down next year. So – but equally, we do expect that the Seaway 7 share of some of those UK projects and awards, the market should be reasonably strong. The Seagreen 1A is mentioned, which is the extension to the current project that we're working on. And we expect that one to have its CFD awarded in the middle of this year. And we're bidding a number of those other projects there.

So we'd expect Seaway 7 get its fair share of work on those. But most of those, with the exception of Seagreen 1A, are T&I [transport and installation] projects, which will cut in 2024 onwards.

We expect US projects to continue to be awarded to market, but most of those again are transport and install for '24 onwards.

If we come back to Sangomar. Sangomar is a project that goes offshore literally as we speak, we have vessels working in Senegal at the moment in the preparation work. And we expect the pipelay to take place as planned in quarter two this year. So Sangomar is trucking along in the background, James, a big project and hopefully we can give the market more updates in Q3 and Q4, as we liquidate the bulk of the work in Q2 and Q3.

James Thompson: Okay, great. Thank you.

John Evans: Thank you.

Operator: We have the next questions coming from Mick Pickup from Barclays. Please ask your question.

Mick Pickup (Barclays): Hi. Good afternoon, everybody. Obviously, good to hear that you're making progress on working cap, project terms and conditions. I'm just wondering, if you're getting to that point yet where you think you can start increasing your gross margin expectations on projects? And whether you think the future will enable you to be selective and start not bidding contracts yourself and some of these projects are coming?

John Evans: Thanks, Mick. Great questions, as always. For us, we run the business with "job level income" on each of our projects, and that is improving and increasing. But the other side of good – very good profitability in this industry is over recovery in the vessel fleet in the vessel asset base. We set our recoveries across a normalised number of days per year recovery on each asset. And that's why, I mentioned the sort of tactical planning about where we deploy our assets, because we've talked to this group over the downturn of the inefficiencies of moving pipelay ships from Australia to Norway, to Brazil, where you spend 100 days a year transiting.

So for us, it's the two sides of that equation that will really start to move the EBITDA margin for this business. And I expect from mid '23, to really start to see the benefits on not only improved job level income and the projects cutting through, but the asset deployment allowing us to get quite high utilisations on the key assets per day. So that's the way I think we will see the market move for us. And it's a sort of classic combination of two things coming together.

And that's why our approach of targeting certain projects in Brazil, certain projects in Norway, certain projects in Gulf of Mexico and certain projects in Australia should hopefully see all that fit together as time moves on.

So directionally, we hope to see that happening. And we see the same hopefully coming in with Alfa Lift in due course coming in, in 2023 in the Renewables. So we don't have to keep moving crane vessels around the world and such like to do so. Altogether, we should be able to see that coming into fruition, hopefully from mid '23 onwards, Mick.

Mick Pickup: Okay. And can I just follow-up. You've obviously talked a lot about Brazil. You've talked about Norway later in the year. You mentioned West Africa in passing, clearly, somewhere that's been important to you over the years. What exactly are we seeing in West Africa?

John Evans: Well, I think we've seen two things in West Africa. We've seen Angola pick up and we're bidding some work in Angola. And we expect to get our share. There are about three projects there. So we'd like to get one of those over the line in the next few months. So for us, Angola is definitely picking up.

As you know, we're the preferred bidder on Pecan, so there's work there with Aker Energy to try to see if we can get the stars to align in that part of the world to get that Pecan project over the line as well. And we're seeing other areas such as the next phases of Senegal and others, potentially coming to the market in due course.

So West Africa doesn't have the momentum that we had in the past. But the important thing it's waking up and starting to move.

Mick Pickup: Okay. Thank you very much. Cheers.

Operator: We have the next questions coming from Lukas Daul from Arctic Securities.

Lukas Daul (Arctic Securities): Thank you. Good afternoon. I was wondering about your order intake in the fourth quarter. There was a decent amount of unannounced orders. Is that something that was exceptional in this quarter, or is it something you anticipate going forward as well? And then the escalations that you have seen. Could you sort of talk a little bit more about them, or what is driving them, and what sort of contributed to the size of those, to $400 million?

John Evans: Yeah. So, Lukas, thanks for your question. Escalations come to us in a number of different ways. First one, all our contracts in Brazil have an annual escalation mechanism, because of the underlying inflation in Brazil. So Petrobras contracts and our international oil company contracts in Brazil have it. So they generally cut in, and they have come into play in this quarter.

We also have different settlements with clients, variation order settlements with clients that then go through our lines in both revenue and job level income.

The last piece for us we took in the fourth quarter, of course, the OHT acquisition, and the revenue that the heavy transport ships and such like that are the sort of foundation of the OHT business [were included] as well. They're the main three elements, Lukas.

Lukas Daul: Okay. Sounds good. Thank you.

Operator: We have the next questions coming from the line of from Nick Konstantakis from BNP Paribas Exane. Please ask your question.

Nick Konstantakis (Exane BNP Paribas): Hi, guys. Thank you for taking my question. I think let me just start by welcoming Mark as well. I think it's your first conference call, so welcome aboard.

Mark Foley: Thank you very much, Nick.

Nick Konstantakis: Just couple of question, please. I appreciate you're talking about 2022. But I'm looking at 2023, the revenue figures and the top line being below 2021, coverage of about 43%, which is quite high given where we are in the cycle. You spoke confidently about order intake in '22. You're talking about good momentum. If that outlook were to materialise, could you exceed that? Or to ask differently, given the backdrop, isn't the most probable outcome that 2023 top line is higher than 2021? And then one for Mark. Just looking at the [construction] contract assets, I think they have been declining quite steadily through the course of the year in 2020. We have a decline this quarter. Can you just please discuss the biggest components in there? What drove the decline Q-on-Q, just looking, for example, at Saudi as well, which could complete the projects next year, and whether that would drive the next step down? Thank you, guys.

John Evans: So, Nick, I'll take the first one, and I'll handle over Mark on the second. We aren't giving guidance today for 2023. I'm giving you directional information about which way we're going, and we're comparing '22 with '21. I think we've been relatively fair with Ricardo, myself and Mark and myself. We can see a number of projects that go offshore from mid '23, being very important in terms of the overall recovery and the utilisation. And that remains unchanged, and those pieces of the jigsaw are fitting together.

We've talked in some of the other questions about how we see '24 pulling together. So, I think, for today, we won't be giving any further detail on '23 other than the direction information that we shared with the market, and we can see that coming.

We touched in the previous question that the gap in the CFDs in the largest market in the UK will mean the offshore work in Renewables will be lower in '23 and you need to use that in your modelling for 2023.

I'll then asked Mark maybe to address the questions on the contract assets.

Mark Foley: Yeah, indeed. So the contract assets is ostensibly a work in progress. This has the holding balance for projects that haven't yet met the milestone, contractual right to bill to the client. You're correct. We have seen that increase between the end of 2020 and 2021. And that's one of the key factors contributing to the working capital performance.

I would expect that to continue through 2022, Nick. And one region in particular contributing? No. I think we can see that the contribution across a number of projects in a number of regions. I think we're all familiar with those regions that have a particular payment condition that our customary to the clients within the region. So I would expect the contract assets to remain elevated during 2022.

Nick Konstantakis: Thank you.

Operator: We have the next questions coming from Chris Møllerløkken from SpareBank 1 Markets. Please ask your question.

Chris Møllerløkken (SpareBank 1 Markets): Yes. Good afternoon, gentlemen. With regards to the terms you are offering to your clients, you talked about pricing. But do you also try to push out other contracting terms like weather standby, payment terms, et cetera? And could you give a bit more flavour there and how do you see that development?

John Evans: The main area that we're very clear with our clients on the moment is the supply chain. We touched on in our prepared remarks. Unless we can have a back-to-back supplier pricing and delivery assurance, or unless we can have a set of escalation mechanisms that provide our suppliers with protection on price of copper or price of steel. So most of our discussions with our clients today about terms and conditions to make sure that we make sure that our supply chain exposure is passed up and down the chain between ourselves and our suppliers.

We've talked about previously that we've seen our one recent bid in Brazil an improvement in the payment terms. So they are the main areas that we are working on with our clients at the moment. We have a very clear set of contracting principles inside Subsea 7. And even in the darkest times in the cycle here, we've always maintained our positions about the types of risks that we take and such like.

Waiting on weather, we again are quite selective about what we take. And that's about do you have a pool of different opportunities in certain markets that you can take a view on how the waiting on weather may play out through a handful of different projects in that region.

So, for us, we work and as the market strengthens, we will continue to work on the risk profile that we take. For me, it's all about the holistic risk profile on a project and then the contingency levels and the profit levels that go with a particular project. So that's in a nutshell, where we're at the moment.

Chris Møllerløkken: You have 4.5 million shares already in Subsea 7 on your accounts, and you announced today a repurchase programme of around $70 million. What could be a fair assumption regarding the fate of the shares you are repurchasing in Subsea 7?

Mark Foley: Okay. So we have a mandate for the Board for share repurchases out to April 2023. We will take a decision I think closer to the time as to whether those shares will be cancelled, or indeed, they will be retained within Treasury shares. So too early for us to comment upon the fate of those shares that have been bought back in the recent repurchase tranches, Chris.

Chris Møllerløkken: Thank you.

Operator: We have the next questions coming from Kévin Roger from Kepler Cheuvreux. Please ask your question.

Kévin Roger (Kepler Cheuvreux): Yeah. Good afternoon. Thanks. The first one is relating to the pricing environments in the oil and gas business, because you mentioned for example in Brazil, there were only two bids on Búzios 8. I was wondering if you can just give us some metrics to show how the pricing is evolving, if you can give a number or something like that to show the trend? And the second question is related to the renewable markets. I was wondering if you can also comment on the competitive landscape in that space, because we have seen recently that Saipem is struck with execution issue in a number of projects, Sapura Energy has recently cancelled a contract. So I was wondering if you can also give us some colour in terms of the competitive landscape and the pricing environment in the offshore wind, please?

John Evans: As you know, the Seaway 7 team will be coming up with their earnings call soon. I'll let them give you more details on that. I think – coming back to the pricing metrics. I hope we've given you enough information, Kévin, to show to you that directionally things are heading the right way. The market is moving faster. Our clients want to talk to us. They're engaging with us earlier. They want to talk to us about how they can move their projects ahead, how they can accelerate their projects. So, I hope you can draw different dots together about what that means.

We are late cycle. But now is the time that we are picking the work up that will generate some very good EBITDA for us in '24 and '25. And I think it's important to think about coming back to where we are today. In our sector today, there's us and one other that have a reasonable position in terms – and a strong position in terms of balance sheet and position with clients. And the clients are talking to two of us. And there's a certain amount of capacity and our clients are very clear. There's a certain amount of capacity there, hence the speed at which discussions are taking place.

I've spoken to many clients in the last month and the same discussion is "please be open with us about your capacity", "please tell us what we need to do to secure that capacity". So for me, I think, directionally, it's moving well. But we have also been very thoughtful about how we position ourselves here about the size of the fleet we needed, the technology and the capabilities we needed, the relationship with Schlumberger, the 76% share by revenue of integrated SURF and SPS that we have today in that market means there's value add how we do these projects.

So again, we're quite thoughtful about what we're doing. And that thoughtfulness is also about which clients we work with and how we will position ourselves for what is a good set of opportunities for us at the moment.

Certainly in wind, we are seeing that clients are now starting to think ahead. There's been a number of casualties along the way. So how do they get access to quality, capability, which can also take the larger size projects that are coming. You see the recent leases in the US. These are huge projects that two or three contractors can do. So I think for us, it's about how do we position ourselves and how do we get ourselves in the right place. But I'll let the Seaway 7 guys spend a bit more time on their call to explain that, if that's okay with you, Kévin.

Kévin Roger: Okay, thanks a lot.

John Evans: Well, thank you very much. Thanks a lot for everybody's questions. And we appreciate your continued support. And we will talk again to you at the end of Q1. Thanks a lot.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect your lines. Thank you.

[END OF TRANSCRIPT]