Subsea 7 Q4 2020 Results Conference Call

Thursday, 25th February 2021

Speaker: Welcome, everybody. With me on the call today are John Evans, our CEO, and Ricardo Rosa, our CFO. The results press release is available for download on our website, along with the presentation slides that 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 found in our press release. I will now turn the call over to John.

Q4 Highlights

John Evans

CEO, Subsea 7

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

Fourth quarter 2020 results

Turning to Slide 4, in the face of a challenging year with difficult macro conditions, Subsea 7 has delivered well, particularly in the fourth quarter. Our activity levels in Q4 improved sequentially from the third quarter, driven mainly by SURF and Conventional. Revenues were up approximately 14% year-on-year and our EBITDA margins improved to 16%. We ended the year with a strong balance sheet, with $512 million of cash and equivalents, and net cash of $49 million.

During the quarter, we mobilised our new vessel Seven Vega to the Gulf of Mexico and it started its first job a few weeks ago. Bacalhau FEED was completed, and finally, advancing our energy transition goals, we launched the Subsea 7 Carbon Estimator, which I will talk more about later.

Fourth quarter operational highlights

Turning to Slide 5 and our operational highlights, in the fourth quarter we were active in the UK for both an oil major as well as a new generation of independent. For Shell, we executed the offshore installation scope for the Arran tie-back and continued work on the Pierce project as well as the Penguins redevelopment.

For IOG, the Seven Navica was busy installing pipelines for phase one of the client's southern North Sea gas project, the Blythe.

In Brazil, Seven Seas completed the installation of flexibles and umbilicals on Lapa North East. And in the Gulf of Mexico, along with our partners in Subsea Integration Alliance, we made good progress on the Mad Dog II project.

In Angola, Seven Borealis and Seven Arctic were both active, tying back Zinia to the Pazflor FPSO and this project was over 90% complete at the end of the quarter.

Engineering work continued on Sangomar in Senegal, as well as on a variety of projects in the Gulf of Mexico, including Anchor, King's Quay and Jack and St Malo.

The Life of Field business unit achieved high vessel utilisation in the fourth quarter, with work on its three long-term contracts in Azerbaijan, UK and Norway, as well as activity in the North Sea and the Gulf of Mexico.

The Renewables business unit continued to make good progress on Seagreen, with fabrication of the jackets and in-array cables well under way.

Meanwhile, work in Taiwan did not resume as planned and some of this activity has now been rephased into 2021.

Year end 2020 backlog

Turning to Slide 6, as we have noted before, large new orders in this business can be lumpy. We had a quiet fourth quarter, but intake for the year was a robust $4.4 billion, resulting in a book-to-bill ratio for the year of 1.3.

Since the quarter-end, we have announced two contract awards, including our first carbon capture and storage project for Equinor at Northern Lights.

At the year-end, we had a backlog of $6.2 billion and our workload for execution in 2021 is $4 billion, giving us good visibility on the project activity in the coming 12 months.

Now, I will pass over to Ricardo, who will run through the financial results in more detail.

Financial Results

Ricardo Rosa

CFO, Subsea 7

Thank you John and good afternoon everyone.

Income statement summary

Slide 7 shows our income statement highlights. Fourth-quarter revenue was $1 billion, 14% higher than the prior-year period, reflecting higher levels of activity in our Renewables business.

Adjusted EBITDA of $165 million, including net costs associated with Covid-19 of approximately $5 million, was flat year-on-year. This resulted in an adjusted EBITDA margin of 16%, about 260 basis points lower than the margin achieved in the prior-year quarter, due to lower activity and few project completions in SURF, partly offset by improved activity in Renewables.

In the fourth quarter, we recognised asset impairments of $94 million, mainly related to vessels, including the Seven Mar, which had been classified as an asset held for sale at the beginning of 2020.

In addition, the quarter includes goodwill impairment charges of $27 million, split equally between the Life of Field business unit and SURF and Conventional. The net loss was $103 million, equivalent to a diluted loss per share of 35 cents.

Turning to the full year, revenue in 2020 was $3.5 billion, down 5% year-on-year and due to lower activity levels in SURF and Conventional, partly offset by higher activity in Renewables. Adjusted EBITDA was $337 million after incurring restructuring charges of $86 million and net costs associated with Covid-19 of approximately $70 million. This equates to an adjusted EBITDA margin for the year of 10%, a reduction of around seven percentage points compared with the prior year.

In the full year, we recognised goodwill impairment charges totalling $605 million, as well as asset impairments of $323 million, mainly recognised in the second quarter and reflecting the deterioration in outlook for oil and gas markets.

The net loss was $1.1 billion for the year, equivalent to a diluted loss per share of $3.67.

Supplementary details: Q4 and FY 2020

Turning to Slide 8 for additional details of the income statement, administrative expenses in the fourth quarter included $15 million of office lease impairment. Excluding the impairment, fourth-quarter administrative expenses diminished by $27 million compared with the prior period, and for the full year they declined by $40 million compared with 2019. The reductions were driven by reduced staff levels, lower tendering activity and travel costs, reflecting our cash cost reduction initiative.

For the full year, administrative expenses included $11 million of costs related to the group's resizing programme.

Full-year depreciation and amortisation decreased by $42 million compared to 2019, reflecting the exit of Seven Pelican and Seven Mar from the fleet, partially offset by depreciation associated with Seven Vega, which entered the fleet in the fourth quarter.

The tax charge of $33 million in the full year reflects the fact that we were unable to recognise tax credits on losses incurred in certain jurisdictions, the limited tax relief associated with impairment charges, as well as the impact of irrecoverable withholding taxes.

Costs overview

On Slide 9, we revisit our cost histogram that shows our expenses divided into four main categories. In 2018 and 2019, we highlighted the tight rein we had kept on costs as the offshore recovery got underway. In 2020, you can begin to see the impact of the cost reduction plan as we realigned our business to a new macroeconomic outlook.

Vessel and other costs excluding impairment charges fell to approximately $300 million. We ended the year with 30 vessels in our active fleet, down from 32 at the end of 2019. We released two chartered vessels and stacked two of our own vessels during the year. We had planned to stack an additional two vessels, but in September we received an extension of the contract on Seven Sun and we took the decision to convert Seven Phoenix for use in Renewables as a cable-lay vessel.

Our intention remains to reduce the fleet as activity levels dictate. Our personnel costs fell to approximately $900 million in 2020 as the planned headcount reduction progressed during the second half.

Direct project costs are a function of the volume, mix and phasing of our activities and the pricing environment for procurement. In 2020, we saw a slight increase in our procurement costs, driven by the mix and phasing of our portfolio of projects, particularly Seagreen. Supply chain pricing remained stable in 2020.

Supplementary details: Q4 and FY 2020

On Slide 10, we summarise the performance of our operating business units after excluding all goodwill and asset impairment charges in the current and prior-year quarters, and for the full year 2020 and 2019.

Business unit performance

The SURF and Conventional business unit generated $715 million of revenue in the fourth quarter, 6% below the prior year, mainly due to weaker activity in the Middle East and lower conventional activity in Africa. Our SURF activity in Africa has been more resilient and this quarter the Zinia project in Angola made a significant contribution, as did Sangomar in Senegal. We recorded strong revenue in the Gulf of Mexico on Mad Dog II, King's Quay and [inaudible] and in Brazil from the PLSVs.

The UK was also a bright spot this quarter, with contributions from the Blythe, Penguins, Pierce and Arran projects.

Life of Field revenue in the quarter was broadly in line with last year, at $66 million. Renewables and Heavy Lifting revenue was $234 million, a four-fold increase compared to the prior year, mainly driven by activity on the Seagreen project, and it represented 23% of group revenue.

Net operating income for SURF and Conventional was $38 million, compared to $99 million in the prior-year quarter, mainly due to fewer project completions, as well as the adverse impact of Covid-19.

Life of Field reported net operating income of $10 million in the quarter, a significant favourable swing from the loss of $3 million in the prior-year period.

Renewables and Heavy Lifting recorded a net operating loss of $1 million, compared with a loss of $26 million in the prior-year quarter, driven mainly be significantly higher revenue related to the Seagreen project.

Turning to the full year, SURF and Conventional revenue fell 19% year-on-year, while revenue from Renewables increased nearly three-fold and represented 18% of the group total. Seagreen was the largest contributor to the group's revenue in the full year, with good contributions as well from Zinia and Mad Dog II. Life of Field revenue was broadly flat compared with 2019. Net operating income fell sharply in SURF and Conventional and remained negative in Renewables, but Life of Field reported a $28 million net operating income, a significant improvement year-on-year, driven by successful efforts to right-size the organisation, increased activity in Brazil and steady IRM work in the North Sea.

Summary of 2020 cash flow

Slide 11 shows our cashflow waterfall chart for the full year.

Net cash generated from operating activities was $447 million, including a $192 million favourable movement in working capital. The latter was driven by the timing of milestone payments on EPCI projects, including Seagreen, and lower working capital requirements, due mainly to much reduced activity in the Middle East.

Our capital expenditure was $183 million, below our guided range of $200 million to $230 million, and reflecting our continued focus on capital discipline and preserving cash.

We spent approximately $70 completing the construction of Seven Vega and $5 million on the conversion of Seven Phoenix, which is due for completion in the second quarter of 2021.

During the year, we incurred $104 million in lease payments, mainly related to chartered vessels.

At the end of the year, we had $512 million in cash and cash equivalents, an increase of $114 million from end-2019. Our net cash position improved to $49 million, including lease liabilities of $254 million.

Capital allocation framework

Our capital allocation strategy, as shown on Slide 12, remains unchanged, and you are familiar with our three objectives: reinvesting in the business, protecting the balance sheet and returning excess cash to shareholders.

As I mentioned in the previous slide, we continue to invest in the business in a disciplined manner, with a focus on digitalisation and technology as well as selective investments in renewables. We maintained a strong balance sheet during the year, helped by our swift and decisive action to realign our cost base with the reality of the new macroeconomic environment. We also enhanced our liquidity position this year with the addition of a euro commercial paper programme, equivalent to approximately $800 million. This, along with our revolving credit facility of $656 million, remained undrawn at the year end.

As we announced separately this morning, we have entered into a $500 million, five-year amortising loan facility, backed by a $400 million guarantee from the UK Export Finance. The group has a two-year availability period during which to draw on the facility, and the facility has a five-year tenor, which commences at the end of the availability period or when the facility is fully drawn, if earlier. The facility can be used for general corporate purposes, including to provide working capital financing for services provided from the United Kingdom.

Finally, marking its confidence in the final position and outlook for the group, the board has recommended that shareholders approve a dividend per share of NOK2, equivalent to approximately $70 million. This continues our consistent track record of returning excess cash to shareholders, which over the past decade has amounted to nearly $2 billion.

Financial guidance

To conclude, Slide 13 shows our guidance for the full year.

Last quarter, we provided guidance on revenue, EBITDA and net operating income for the full year 2021. This remains unchanged and today we provide more colour on the outlook for the year.

The operational and financial impact of Covid-19 remain very difficult to predict, but early indications are that we will likely incur a charge in the first quarter not dissimilar to Q2 and Q3 of 2020. In addition, we expect the impact of seasonality on the first quarter to be quite pronounced.

Turning to the full year, and bearing in mind my comments on Covid-19, we expect revenue and adjusted EBITDA to be above 2020 levels and we expect net operating income to be positive.

Our administrative expenses are expected to range between $220 million and $240 million, net finance cost is expected to fall between $15 million and $20 million, while depreciation and amortisation expense is expected to be between $430 million and $450 million. Our tax charge for the year is anticipated to be in the range of $20 million to $30 million.

Capital expenditure in 2021 is expected to fall within the range of $120 million and $140 million, inclusive of the completion of the conversion of Seven Phoenix and dry docking expenditures on the existing fleet. I will now pass you back to John.

Operational Update

John Evans

CEO, Subsea 7

Thank you, Ricardo.

As you know, we clarified our strategy during 2020 and introduced the two elements: the Subsea Field of the Future: Systems and Delivery and our proactive participation in the energy transition. Today, I would like to talk to you about a technology we launched to enable lower-carbon developments, and I will give you an update on our offshore wind activities.

Oil and gas: lower carbon developments

Turning to Slide 15, in Quarter 4 we launched the Subsea 7 Carbon Estimator. This is a proprietary Subsea 7 tool that allows us and our clients to optimise the CO2 emissions associated with their projects. It considers all aspects of the development solution, from the impact of various fabrication and procurement options to the contributions made by a combination of vessels and different field layouts. Ultimately, we can refine all the elements of the supply chain and the field design to reduce emissions of each project. It also helps us long term make informed decisions about strategic investments in vessel hybridisation, digitalisation and remote operations.

The Carbon Estimator has been rolled out globally and we now utilise this on 100% of our early engagement studies. Ultimately, it is an important tool in enabling our clients as well as ourselves to achieve the desired sustainability goals.

Renewables: offshore wind

Moving to Slide 16 and an update on our progress in Renewables, our $1.4 billion EPCI contract for the Seagreen offshore wind development is making good progress. At the year-end, it was 18% complete and fabrication at all sites was well underway. We are fabricating the jackets at Lamprell’s yard in the UAE, as well as at two yards in China. Between them, they are working on around 15 jackets at any one time and we will begin shipping these to our marshalling site in Scotland in Q2.

Seagreen’s cables are being manufactured at Hellenic in Greece. At over 300 kilometres, it is our largest cable project to date. Overall, Seagreen is a major undertaking with a complex supply chain, but our successful track record of project and risk management are both part of our differentiating renewables offering.

Our operations in Taiwan are suffering the teething issues of an emerging market, but we're confident that this market offers good opportunities for profitable growth.

The profitability of the Renewables business unit should improve as we start work on the 2021 execution portfolio of Hornsea Two, Kaskasi, Hollandse Kust Zuid and the initial phase of Seagreen.

Overall, our backlog for Renewables remains high, at $2 billion, including contracts involving the installation of 339 foundations and nearly 1,900 kilometres of inner-array cable. To provide some context, the latter is more than double the quantity of cable we have installed in our entire 10-year history. Of the $2 billion backlog, over $1 billion should be executed in 2021 and we are working on replenishing this order book and we expect awards to the market in nine to 12 months' time.

To conclude, it is our aim to build a sustainable, robust Renewables business that can deliver revenues in excess of $1 billion per year, with EBITDA margins of over 10%. In 2021, we are making good progress to achieve this goal.

Sustainability: enhanced disclosure

On Slide 17, we come on to an important topic for many aspects of our business: sustainability. We continue making good progress, both on improving our sustainability of our operations and, importantly, in our sustainability disclosures. 2020 saw the introduction of new sustainability metrics for measuring and reporting our progress and we have improved our rating with both the Dow Jones Sustainability Index and the ISS.

The journey will continue with the publication of our second sustainability report next month, which will contain more details of our strategy, our KPIs, our targets, and I hope you will all read it and find it useful.

Outlook

On Slide 18, we have a view of the outlook for tendering in the coming 12 months. As you can see, compared with the last quarter, the bid pipeline for oil and gas projects is improving, although it remains centred on those regions with low oil-price break-evens as well as specific projects with advantaged economics.

Tendering in Brazil remains active, with Mero 3, Buzios 6 and BMC 33 all to be bid in the next year. In parallel, we are also bidding in March the next batch of PLSV opportunities with Petrobras. In Quarter 4, we finished the FEED for Bacalhau and we expect conversion to a full EPCI in the first half of this year, subject of FID by the client. In Norway, following the introduction of the tax relief for new developments, we are seeing greater activity both in terms of engineering and tendering for EPCI contracts.

Although activity is patchier in Africa, we have started work on the tender for the next phase of CLOV in Angola. And Australia, we continue to monitor progress towards the sanction of Scarborough, for which we are the preferred supplier.

In Renewables, we are seeing good opportunities in the longer term in Europe and the US, with increasingly ambitious targets for many of our oil and gas clients in expanding their offshore wind portfolio. We have seen BP, Equinor and Total successfully winning leases in the UK and the US in the last few weeks.

As we noted at the Investor Day that we ran in September last year, a reduction in the market is forecast for 2023, but we expect strong growth from 2024 and 2025 onwards.

In floating wind, whilst commercial-scale projects remain some way off, we see growing interest from energy companies in reducing the carbon intensity of their hydrocarbon production and they do this through electrification of the infrastructure using offshore wind power.

To conclude, we will turn to Slide 19. We finished 2020 in a strong position with a resilient backlog of $6.2 billion, including $4 billion for execution in 2021. We grew the backlog by 20% in 2020, despite the challenging conditions, thanks in part to our focus on oil and gas markets with favourable break-evens and our track record in key markets such as Brazil and of course Renewables.

As Ricardo mentioned, Covid-19 remains a concern in 2021 and we are likely to incur continued incremental costs, at least in the first half of the year. However, our financial position and outlook has given the board the confidence to recommend to shareholders a dividend of NOK2 per share, extending our decade-long track record of capital returns.

Now, we will be happy to take your questions.

Q&A

Michael Alsford (Citigroup): Great. Thanks for taking my question. I have a couple if I could on Renewables, please. Firstly, I was wondering whether you could talk a little bit more about the opportunity in the pipeline. You mentioned about US recent auctions and I just wondered if you could talk a little bit about the opportunities and challenges of operating in the US. Then more broadly, you have made some changes to your reporting lines. I was just wondering what was the reason behind that and does that mean that you maybe would consider spinning the renewables business out of the group. There were no questions. Thank you.

John Evans: Thank you very much. Two very interesting questions. My reference to the leases is around the fact that we saw some very good lease awards and both in the UK and the US, Michael, and we saw that the prime winners of those leases were not the traditional utility companies that we deal with but our Equinors, our BPs and Totals. So, at the moment, there is a batch of projects which are on the slide that we show, which are out for bid in the US market, and they are for leases that were awarded a couple of years ago with companies such as Ørsted and Dominion. So, there will be opportunities this year to bid those projects and we expect probably those to be awarded to the market either at the very back end of this year or at the start of next year. Working in the US is something we are very familiar with. We have been there for over 35 years, so there are requirements in terms of local vessels required and such like, but as you know, we did the demonstrator project, actually for Dominion, on that project last year, so again, we have been there, we have executed work in the US, so we feel comfortable that it is a complex market with its own set of rules but that is very common in whichever country you work in. In terms of reporting, it was really around the fact that we did very little heavy lift work in oil and gas and a very, very small percentage of that work, so we just tidied up our reporting lines to show that it is purely a renewables business, and if we do any heavy lifting work, that will be covered in the other side of our reporting lines. But I hasten to add, we have done very little work in the oil and gas space in the last year. In terms of a spin-off, at the moment we are very clear that there is value for Subsea 7 to keep the two businesses together. I will come back to the point I made about the fact that our traditional oil and gas clients are moving very heavily into offshore wind. We also see the benefit of flexing our workforce backwards and forwards across the different projects. As well as assets, we are redeploying a couple of assets that we may have stacked in oil and gas into wind this year. So for us at the moment, we are very comfortable that we have a model which has two different reporting lines but one common backbone, one common way of working, and we can move our resources around as the markets will grow. We think that is a good place for Subsea 7 to be.

Michael Alsford: Okay. Thank you very much.

Nick Konstantakis (BNP Paribas Exane): Hi guys. Thank you for taking the questions. A couple, if I may, one on renewables actually. Starting there, you had one of your peers this morning announcing or discussing execution issues on an offshore wind project. Could you just remind us a bit how you are thinking about risk management, the [inaudible] rate on this business and the safeguards you have in place? I am thinking, for example, contractual terms or how selective actually are you around the operator and the work you are bidding on, who is your client. Then the second one: I guess, Ricardo, the $400 million increase on the backlog for 2021, I am assuming that is Taiwan. Could you just help us understand the moving parts around the margins year-on-year? I am thinking in particular change in mix, you have a few projects close to completion, so are there contingency releases, etc?

John Evans: Okay, I will take the first question, Nick, and then I will ask Ricardo to take the second. What is very important in Subsea 7, whether it is oil and gas projects or it is renewable projects, they go through our gated review process, where we make sure that we understand the risks and the contractual terms which we are working under. That is a system we have worked for many years and it works exactly the same, whether it is renewables or oil and gas. There are needs sometimes not to take contracts because of the risk profile that you take on board, and so for us we bid that project that is affected and we did not win it and it was about the contract terms. So, for us, we do have a very clear path where we will take work and we have a very clear path where we will not take work. So for me, it is around making sure that we use our governance processes well and we use our judgement well and that is how we have built this company up over the years. We know that taking fixed-price contracts brings in risk. It is about quantifying the risks and, more importantly, whether you can actually influence the risks. If you cannot influence the risk, it is a very dangerous place to be taking that. So for us, we use that governance system. We are comfortable with our governance system and that is the way we run our business. I will hand you over to Ricardo.

Ricardo Rosa: Yes, Nick. Good afternoon. Taking the first part of your second question, I believe you were referring to the fact that we have increased the level of revenue that we expect to generate from backlog in 2021. That is how I understood your comment, the $400 million.

Nick Konstantakis: Yes.

Ricardo Rosa: We had previously indicated we were expecting to execute $3.6 billion. We are now saying that we expect to execute $4 billion in 2021. And the reason for that is, if you like, the uncertainty and the impact of Covid on activity in 2020. This was particularly evident in the Middle East, where we had a number of projects that we thought would be delayed but not to the extent that they have been. And we are seeing them now being… The likelihood is that the execution will take place largely in 2021, rather than in 2020. This has happened to a lesser extent in other regions and on other projects, but the main driver has been the Middle East. With regard to your second question on margins, and here I hope that I have understood the thrust of your question, our margin recognition is very much based on the percentage of completion method. We review our projects as they progress throughout the year and make sure that our forecasts of costs and overall profitability of the project through its life are as accurate as we can make them. As we progress the project and we execute well, to the extent that we minimise risks, we are able to adjust our view on the necessary contingencies and the remaining costs, and as a result, you will tend to get a slight hockey stick effect when there are project completions. I mean an upward hockey stick effect as a project reaches the end of the execution phase. And this, to an extent, has explained some of the improvement in profitability that we have seen in the fourth quarter as compared to the third.

Nick Konstantakis: I am sorry, just on that, do you mind telling us which projects you would expect to complete in 2021? I am just trying to assess can that offset the higher proportion of renewables, for example, you have year-on-year.

Ricardo Rosa: I think… I mean, I am not going to run through each individual project, Nick. I think you can determine that from one of the slides in the appendix. I think it is Slide 22, which shows major project progression, and there you can see those projects which already have achieved a high level of POC, percentage of completion, and are therefore likely to be completed in 2021.

Nick Konstantakis: Excellent. Thank you.

Sasikanth Chilukuru (Morgan Stanley): Hi. Good afternoon. I had two questions, please, essentially relating to what is not in the presentation as opposed to what is in the presentation. The first was related to the cost savings programme. Last quarter, you had mentioned a delay in achieving this analysed cash cost savings of $400 million to end-2021. This quarter, I hardly see a mention of that. I was just wondering, does that target still hold true? And if yes, if you can provide the progress of that target now, that would be helpful. The second one was related to the slide on the opportunity set. I noticed that the NOAKA project by Aker BP had been taken off the list of opportunities in today's presentation. I was just wondering why that was, especially given Aker BP is your alliance partner. Thanks.

John Evans: Thank you. I will take the second and the first and then Ricardo can talk a bit more about the cost saving. I think Ricardo did make mention of the cost saving in his prepared remarks and he will give you more clarity on that. NOAKA is still alive. We were just trying to give a list to where we think there were tenders in the next 12 months. NOAKA is a project which we will really be pushing in the second half of next year to attempt to get sanction at the end of 2022. So, NOAKA will be sanctioned we believe at the back end of next year. So, it is very much something that we are working on in the partnership arrangement we have with Aker BP. I will pass you over to Ricardo just to talk a bit further on the cost savings.

Ricardo Rosa: Thank you, John and good afternoon, Sasikanth. I would draw your attention again to Slide 9, where we show our cost histograms over time. And if you look at the composition of 2019 and 2020, you can already see that we are on the right track in terms of reducing our cost structure. You can see the impact already on our people costs, which are down $100 million, and on vessel and other costs, which are down $100 million as well. So, to be more precise, we believe that in the course of 2020, we have achieved over $200 million of savings against our target, and this is inclusive of the fact that the resizing programme, as far as people are concerned, only really started having effect in the third and fourth quarters of the year. So you have to evaluate it from an annualised perspective. In 2021, I believe in our comments on Q3 we indicated that we were still targeting a total of $400 million in cash cost savings on an annualised basis, but that we would not achieve that until the fourth quarter of 2021, as opposed to the end of the second quarter. And this was purely because of the phasing of our activity, which as I mentioned in response to a previous question, has resulted in more work being done in 2021 than in 2020. There has been a slippage there. So, I think we have covered that topic sufficiently, if I may.

Sasikanth Chilukuru: Oh, very helpful. Thank you very much.

Ricardo Rosa: Okay.

Mick Pickup (Barclays): Good afternoon, everybody. Hopefully a couple of simple questions from me. Just on the EBITDA guidance, can you just clarify when you say it is going to improve year-on-year, what are we talking about, what level? Obviously, it is moving parts this year. I know you cannot forecast them, but what is the clean number I should be thinking about? Secondly, we have talked about risks here. Obviously, you do about $2 billion of procurement every year and steel prices have just seen this unprecedented rise. Can you just talk how you are protected from that given the speed of that change when you are bidding pipelines?

John Evans: Yes, thanks, Mick. Good afternoon. I will do the procurement question and then Ricardo can give clarity on the EBITDA guidance. I think, as Ricardo mentioned, interestingly, during the year of 2020, we saw supply chain reasonably well controlled and managed, but what we have seen is at the very back end of 2020 and as we are now going into the first couple of months of this year, we are seeing certain commodity prices moving upwards. We generally have a methodology where we work with our clients as to how that risk is to be managed. If the clients can give us a commitment early enough, we will lock it down and we might purchase materials in advance of a sanction, where we have protection with the clients if the project does not sanction they are the proud owners of the material. There are other mechanisms then where we will work with a supplier, where we will fix the cost, for example of fabricating the pipe, but we will have an escalation and de-escalation mechanism in the contract that will protect a certain percentage of the total value and that then is referenced to the price of iron ore, for example, or the price of copper, if we are buying power cables and such like. So, there are a variety of different mechanisms that we have in our agreements and we try to work them in a manner which is collaborative with our clients to make sure here that we pass through the risk backwards and forwards in a manner which works. So, that in a nutshell is how we try to do it through two or three different mechanisms that we have along those lines. And then on the EBITDA, I will let just Ricardo to clarify that for you.

Ricardo Rosa: Good afternoon, Mick, and I will try and give you a straightforward answer to your simple question on this point. I think our reference EBITDA for 2020 is to effectively add back the restructuring charge which we see as a one-off cost. And as we have highlighted, that represents $86 million on 2020. So, $86 million plus the $337 million that we reported gives you a reference EBITDA of $423 million. We do call out Covid-19 costs, but as far as we are concerned, unfortunately it is part of the reality of our business today, so any guidance that we give will include assumptions regarding Covid. In my prepared remarks, I did emphasise that this is a variable that is a challenge and that we continue to minimise, and John has re-emphasised that in his comments about the first half and the possible impact it could have. So, in essence, our guidance on EBITDA for 2021 is inclusive of Covid costs.

Mick Pickup: Okay, thank you. And just a very quick one: you mentioned Renewables being $1 billion. Is that enough to make it positive, given where you are phasing-wise in procurement?

John Evans: We believe we will be well on our way to our target this year, Mick, is our objective this year.

Mick Pickup: Okay, thanks.

John Evans: Thank you.

Vlad Sergievskii (Bank of America): Gentlemen, thanks very much for taking my question. The first two would be on the backlog phasing. $4 billion for execution this year. Is there any risk or chances of materially failing on that? Just trying to compare to consensus revenue for this year, which is already slightly above $4 billion……. A lot of projects are in Brazil in this pipeline. Are you expecting any impact from the Petrobras's leadership change on the timing of those awards?

John Evans: Thank you, Vlad. There are a number of questions in there. We will try to answer them for you. If I go backwards and then you can pick me up if I have missed any of your questions. Brazil, yes, is busy at the moment. We are bidding Mero 3, we are bidding the PLSV extensions at the moment, we expect the next phases of Buzios 6 to be out and 7 and 8 will be out at some point they're in quite close order. So at the moment, we see no change in timing, but it is very early days from the changes that have been to the leadership of Petrobras. I think, as you can see there, there are orders for SPS, there are orders for FPSOs and things being placed for those projects, so I do think that we should probably see the momentum keep going, despite any changes in senior leadership. In terms of the phasing of the backlog, I think Ricardo answered in the last question. The impact of Covid and where work will spill over between one year and the next is the big unknown. We have quite a large programme of work in the Middle East and it is fair to say it is not very easy at the moment to work in the Middle East to get people in and people out of different countries. The whole logistics chain that we have there is a question for us. So, I think for us it is around just how Covid impacts the actual distribution of the projects, and I think that will be what will determine how much of that backlog will come in this year and how much stability we will have around that.

Vlad Sergievskii: Perfect. That is great. Thanks, John. And if I can squeeze one quick one for Ricardo, please. Any initial thoughts on working capital trajectory during 2021, you are starting some work in the Middle East, Seagreen is progressing. Any other factors to keep in mind here?

Ricardo Rosa: Yes. Good afternoon, Vlad. It is a good question and I think that my frank answer with regard to 2020 is that I was a little disappointed about our cash balance at the year-end. Frankly, we were expecting an even better one. And the reason that there was a bit of a shortfall and our working capital movements are not as positive as we had hoped it would be because a number of clients opted to pay us in the first two weeks of January rather than in December as we expected. I mean, to give you an idea, we have been for the last few weeks working with a cash balance much closer to $600 million than to $500 million. This being said, you are right to ask the question on working capital. We do expect there to be working capital outflows on a number of major projects in the course of 2021, both on the renewables side, where we have a heavy procurement activity for Seagreen in particular, but also because the Middle East is picking up and, as you know, the payment terms of major clients there tend to result in negative cash flow for the majority of the life of the project. But we are ready for it. We have good cash resources, we have good access to liquidity and we reinforce that access thanks to the new loan facility that we have just entered into and that we announced today.

Vlad Sergievskii: Ricardo and John, thanks very much.

Ricardo Rosa: Thank you.

Frederik Lunde (Carnegie): Thank you and good afternoon. My question comes back to the backlog. You obviously have very solid coverage for this year and a fairly good backlog position for next year as well, but then you are coming from six months' of virtually no orders, but also a currently strong oil price. I am just curious how you see timing of awards being critical for filling up backlog for 2022.

John Evans: Thank you, Frederik. I think that is a very pertinent question. I guess there are two moving parts to that question for me. One is the fact that 2022, when we physically go offshore in 2022, will be the challenge for our industry of not much work awarded in the backend of 2020 and the front end of 2021, so we will need to get our fleet sized and ourselves organised for offshore delivery in 2022 about what exactly we can implement. So, that is one side of the equation. The other side of the equation is a brightening I think, in the distance, with our oil and gas clients around the opportunities that they have. As we have been quite open with the market, there are a number of projects where we are the preferred bidder, such as Bacalhau and Scarborough, and longer-term projects such as Pecan and Rovuma become economic and get sanctioned. We are also well positioned there. So for us, it is around the timing of which those projects do ultimately get sanctioned and how they fit together and how all that comes together in terms of backlog portfolio that we will actually have. The question really, and which we will have to see over the next six months, is the appetite of our oil and gas clients, whether they feel comfortable to push work further forward. We see the Norwegian market being one where the sanctioning of projects will be at the end of 2022, because that is where the cut-off is for the tax benefit. So really we can see a pick-up coming. The timing of how all that fits together I guess is the puzzle we are all trying to work on at the moment, Frederik.

Frederik Lunde: Thank you. Just on the capex side, you have been highlighting that you have a fleet for the future, but as you see the offshore wind market now picking up speed, do you have any thoughts on future new-builds or picking up second-hand tonnage for that market?

John Evans: I think, Frederik, as I touched on in my prepared remarks and as we discussed in Investor Day, actually the renewables has a bit of dip in 2023 and then it picks up very strongly in 2024 and 2025, so I think our thinking is around where do we need to be in terms of asset base for 2025 onwards. So that is a piece of thinking we are starting on at the moment. So, we will keep our minds open to that. But in the near term I think we will work our existing fleet, plus the Phoenix, which will come in this year, to work the workload we see in the next 2022, 2023, 2024 period.

Frederik Lunde: Super. Thanks very much.

John Evans: Thank you.

Mark Wilson (Jefferies): Hi. Good morning. Thank you for taking my questions. Just one point on 4Q. You have mentioned close-out of the Brazil Lapa project. I am just wondering how much that contributed to the very good results in the quarter and are there any projects that close out in a similar fashion in 2021. The second point is the lower Carbon Estimator. I would just like to know if you see that as a tangible, big differentiator or something that all companies are having to include in bids these days. Thank you.

John Evans: Yes, thank you Mark. I guess as both Ricardo and I touched on in our prepared remarks, at the end of the year generally a number of our clients want to tidy up their accounts, want to finish off, so it is generally to do with projects we have done far earlier than Lapa, which concluded in Quarter 4, and we will not go into individual projects. So, that was one of the benefits we saw in Quarter 4, along with the good utilisation. So I guess one thing to think about for us as we get into Quarter 1, we will have lower utilisation and we will not have any settlements. So, we are comfortable with the year, but we will get the bounciness of our quarters, so I would ask everybody to bear that in mind as you think ahead for this year. So, I think that is the first question. The Carbon Estimator is something that we feel… If you recall the Subsea Planner, which we showed to the market in one of our technology days and talked about it previously on one of our earnings calls. This is a tool that the Subsea Integration Alliance, Schlumberger and ourselves have developed which allows you to take a reservoir then to lay out different field layouts and get the economics and the depletion models run, as well as a graphics package that allows you see what it all looks like. The one piece we felt that was missing out of that was trying to understand the CO2 impact of all that, so we developed on a standalone basis the Subsea 7 Carbon Estimator. So, it is about a series of packages that we work with our clients on early engagement to allow them to understand fully, because you can trade off recovery, you can trade off capex costs, you can trade off opex costs, and you can trade off CO2 emissions. And in life in the future we believe it will be the combination of those things that will get projects to sanction or not. So for us, it was around trying to have the last piece of the toolkit that we wanted to allow us to have a mature discussion with our clients. We are using it now 100% on all our early engagement studies and we think there will be merit in that. Whether other people will do that, who knows, but I think it is important that we are there and relevant at the table to help make the right decisions, because sometimes it will be a CO2 and sometimes it will be a CAPEX, sometimes it will be OPEX, sometimes it will be depletion models that will define what a field layout looks like.

Mark Wilson: Thank you very much. Very clear.

Kévin Roger (Kepler Cheuvreux): Yes. Good afternoon. Thanks for taking my question. It is basically related to the fact that, John, during the presentation, you mentioned the floating wind. Over the past years, you have focused your work on the floating wind with the French company Ideol. Recently, BW Offshore has announced that it took a majority stake in Ideol, so I was wondering what are the impacts for you in terms of access to the technology for the floating wind in the next years in terms of business, etc. What are the implications for you, please?

John Evans: Yes, thank you, Kévin. Yes, we had a very small share in Ideol and we decided not to make any competing offer to the BW offer that was made to purchase 100% of the company, but it does not mean that we are not interested in floating wind. It was part of a portfolio that we had of being involved in projects such as the Equinor. We are doing a number of floating wind studies through Xodus, our early engagement engineering house, as well as us in-house looking at different technologies and where we need to be. So I guess the answer to the question is Subsea 7 is still very interested in the floating wind arena and we will continue to look at different technologies and where do we need to fit in that ecosystem as that ecosystem develops over the next few years. But at the percentage we had, there were no pre-emption rights, there was nothing with us on that, and we looked at it and decided the best thing to do as a shareholder in Ideol was for BW to purchase their share, Kévin.

Kévin Roger: And sorry for that, but maybe as a follow-up, does it mean that it is possible that let us say in the next 24 months we have a new thing, that Subsea 7 has developed a new internal technology for the floating wind, because you are working on it?

John Evans: We are very open-minded to the technology on wind I think is the main answer, and we are looking at it very, very carefully. We are looking as to whether or not we can be technology-agnostic and therefore use our project and management engineering skills to run the big EPCI contracts that go with it. Do we need to develop our own technology? Do we need to acquire another technology? We are trying to keep a very open mind as to what we need to do there. This is a race where there are 15 horses running on the track and we need to try to work out which horses are going to make it to the end of this journey. So for us, that is the process we are going through at the moment, Kévin.

Kévin Roger: Okay, thanks. Have a good day.

Haakon Amundsen (ABG Sundall Collier): Yes, thank you guys. A question a little bit related to some of the previous questions: you have announced a new loan facility of $500 million and you say that it will support your strategy of being proactive in the energy transition, so I just wonder if you can put some colour on potential investments or use of proceeds from this increased capacity.

Ricardo Rosa: Haakon, yes, good afternoon. This is an attractive facility, as far as we are concerned, and as we have indicated it is designed to further strengthen our balance sheet through diversification. It is relatively long term and what is also attractive about it is that we have a two-year availability period before drawdown, which gives us a lot of flexibility. It is designed both in support of any working capital needs that we may have, particularly where there are UK exports involved, but at the same time it is of a sufficient length that it could also assist us with capital investments to the extent that they will support our initiatives in energy transition. And at this stage, I do not think we will get specific with regard to particular initiatives or projects that we are involved in. We just see opportunities for growth in renewables and in particular offshore wind farms and this additional liquidity provides us the reassurance and flexibility we need to grasp opportunities as they arise.

Haakon Amundsen: All right. Understood. Thank you.

Amy Wong (UBS): Hi guys. Thanks for squeezing me in. Most of my questions have been asked actually at this point, so maybe just one to round out the discussion around order intake, particularly for your oil and gas business. I understand the lumpiness and timing is difficult, but would you say for oil and gas this year orders will be up year-on-year?

John Evans: Yes, we expect our order intake in oil and gas to be up in the next 12 months, yes we do, Amy. We have indicated we believe that Scarborough will sanction, we believe Bacalhau will sanction. There are a number of other projects that we are tendering at the moment that we believe some of the Brazilian projects will come to the market this year. So we feel reasonably comfortable that that order intake will be higher in oil and gas this year than last year.

Amy Wong: Great. Thank you very much.

Speaker: I will hand over to John to wrap up.

John Evans: Thank you very much for sharing the time on a very busy day today, with every one of us all announcing the same day. We look forward to talking to you again quite soon I expect with the end of Quarter 1 2021 results. Thank you very much.

[END OF TRANSCRIPT]