Fourth Quarter 2024
Earnings Presentation

Thursday, 29th February 2024

Operator: Good day and thank you for standing by. Welcome to the Subsea 7 fourth quarter 2023 results conference call. At this time all participants are in listen-only mode. After the speaker's presentation there will be the question and answer session. To ask a question during the session you will need to press star one one on your telephone keypad. You will then hear an automated message advising your hand is raised. To withdraw your question please press star one one again. Please be advised that this conference is being recorded. I would now like to hand the conference over to your first speaker today Katherine Tonks. Please go ahead.

Introduction

Katherine Tonks

Head of Investor Relations, Subsea 7 S.A.

[00:00:36]

Welcome everyone and thank you for joining us. With me on the call today are John Evans our CEO, Mark Foley our CFO and Stuart Fitzgerald CEO of Seaway 7. The results press release is available to download on our website along with the slides that we'll be using during today's call. Please note that some of the information discussed on the call today will include forward-looking statements that reflect our current views. These statements involve risk and uncertainties that may cause actual results or trends to differ from our forecast. For more information please refer to the risk factors discussed in Subsea 7's 2022 Annual Report or in today's complete press release. I'll now turn the call over to John.

Fourth Quarter 2024 Highlights

John Evans

Chief executive Officer, Subsea 7 S.A.

[00:01:19]

Welcome

Thank you Katherine and good morning and good afternoon everyone. I will start with a summary of the quarter before passing over to Mark to cover the financial results in more detail. Turning to slide three.

Delivering Shareholder Returns

Subsea 7 delivered fourth quarter adjusted EBITDA of $245 million, up 45% year-on-year and with a margin of 15%, an increase of 200 basis points. In 2023 we grew the backlog 18% to $10.6 billion, adding high quality projects with an attractive risk and reward that give us good visibility on significant margin expansion in the years ahead. The quarter marked the strategic milestone for Subsea in Conventional with the completion of the OneSubsea joint venture with SLB and Aker Solutions. Our combined strengths, innovations and global reach enable us to accelerate innovation and to support our customers in a continued drive to enhance Subsea performance. In Renewables we strengthened our fleet with the addition of Seaway Alfa Lift and in early 2024 Seaway Ventus, adding new capabilities and capacity to reinforce our position as a tier-1 player in the high-growth offshore wind market. With a solid backlog, active tendering pipeline and strong market position in both oil & gas and offshore wind we're excited for the future. This confidence is shared by the board and is reflected in the commitment to shareholder returns totalling at least $1 billion over four years from 2024 to 2027. Turning to slide four.

Another Solid Year for Order Intake

Order intake in the fourth quarter was $1.2 billion split equally between new awards and escalations. This gives us an order intake for the full year of $7.4 billion, a book-to-bill of 1.2x.

Highest Year-End Backlog Since 2013

Momentum continued in our backlog and at year end we had $10.6 billion of firm work, the highest year end since 1013.

High Visibility on 2024 in Both Business Units

Slide six shows the backlog by business unit. With $4.7 billion for work for Subsea and Conventional in 2024 and $1 billion for Renewables, we have very high visibility of the year ahead. And with that I'll pass over to Mark to run through the financial results.

Financial Results Review

Mark Foley

Chief Financial Officer, Subsea 7 S.A.

[00:03:47]

Group Results – Strong Growth in Revenue and Adjusted EBITDA

Thank you John. Good morning and good afternoon everyone. I'll begin the financial performance review with some details of Group and business unit performance in the fourth quarter before commenting on the Group cash flow and concluding with financial guidance of 2024. Slide seven summarises the Group's fourth quarter performance in the context of the full year and prior three years. Revenue in the fourth quarter increased 26% to $1.6 billion compared to the fourth quarter of 2022, mainly driven by increased activity in Subsea and Conventional. Adjusted EBITDA of $245 million was 45% higher compared with the prior year quarter and the margin improved to 15%. In the fourth quarter depreciation and amortisation amounts of $142 million were recognised as well as a net impairment charge of $48 million which I'll discuss in the following slides. After net finance costs of $80 million, other losses of $28 million driven by movements in non-cash embedded derivatives, and tax charge of $20 million the resulting net loss for the fourth quarter was $11 million. The fourth quarter results contributed to the strong growth in revenue, adjusted EBITDA and margin in 2023. I will now run through the drivers of the Group's performance in the next few slides.

Q4 2023 – Subsea and Conventional

Slide eight presents the key metrics of Subsea and Conventional. Revenue in the fourth quarter was $1.4 billion up 33% year-on-year reflecting progress on Bacalhau and Mero 3 & 4 in Brazil as well as Sakarya scopes in Turkey, an early stage activity on Yggdrasil in Norway. Adjusted EBITDA was $212 million equating to a margin of 15.2%, a 150-basis point expansion on the same quarter last year. This includes an $8 million share of net income from our OneSubsea investment as well as reflecting the continued shift of activity towards contracts awarded in an improved pricing environment. Net operating income in Subsea and Conventional was $128 million.

Q4 2023 - Renewables

The performance of the Renewables business unit is summarised on slide nine. Revenue in the fourth quarter was $218 million, flat year-on-year, reflecting the phasing of major projects and as a result of our increased focus to ensure the right balance between risk and reward in tendering. Adjusted EBITDA was $31 million resulting in an adjusted EBITDA margin of 14.2% marking the third consecutive quarter of double-digit margins. This has been achieved as a result of improved execution as well as the aforementioned further selective approach to tendering. We believe this margin level is sustainable in full year 2024 although in Q1 it is expected to be lower reflecting seasonality in the northern hemisphere and a high level of planned vessel maintenance. In the fourth quarter, we recognised impairments of $73 million. These mainly relate to Seaway Alfa Lift's monopile installation equipment owing to a contract dispute as well as the impairment of Seaway Yudin via the sale in early 2024.

Q4 2023 – Sharp Improvement in Cash Conversion

Slide ten shows the cash flow waterfall for the fourth quarter. Net cash flow from operating activities was $528 million which included a better than expected favourable working capital movement of $306 million. Net cash used in investing activities with $374 million mainly relating to the final payments for the new build wind vessel Seaway Ventus and the first of two $153-million instalments related to our investment in OneSubsea. Free cash flow in the quarter was strong at $303 million together with a sharp improvement in cash conversion at 2.2x. Both metrics benefitted from the significant working capital unwind. Net cash flow from financing activities was $62 million. This included net proceeds from borrowings of $190 million partially offset by lease liability payments of $41 million mainly related to chartered vessels. Cash and cash equivalents increased to $751 million and net debt was $552 million. This included lease liabilities of $458 million. The Group had liquidity of $1.6 billion at 31st December which included around $860 million of committed undrawn borrowing facilities.

Group Financial Guidance

To conclude slide 11 shows our guidance for the full year 2024. In 2024, we continue to expect revenue to be in a range of between $6 billion and $6.5 billion where we also continue to expect adjusted EBITDA to be between $950 million and $1 billion. Our expectation for capital expenditure in 2024 has increased slightly to $300-320 million due to amounts deferred from last year. This range is still broadly half the 2023 capital expenditure.

In terms of the first quarter, I would like to take the opportunity to remind you that this quarter exhibits seasonality, seasonally low activity in the northern hemisphere as well as customarily corresponds with higher levels of planned vessel maintenance. 28 vessels have planned maintenance in Q1 which cumulatively exceeds 400 days. This level is broadly similar to the same quarter of last year. I will now pass you back to John.

Closing Remarks

John Evans

Chief Executive Officer, Subsea 7 S.A.

[00:10:14]

Spotlight on Australia

Thank you Mark. On slide 12 we take a look at our ongoing projects and positioning in the important Australian market. We have a strong track record of working in Australia having completed over 50 projects from our office in Perth since 1977. We currently have four projects totalling $1.2 billion underway, the two biggest being Scarborough and Barossa. Scarborough is an integrated SIA SURF and SPS project that was awarded with our alliance to OneSubsea. Environmental permits have been received for our scope and we are well underway installing subsea equipment and flowlines. At Barossa we have a SURF package. Here we also have the permits to proceed with fabrication underway at our Bintan spool base in Indonesia. Overall we're very pleased with our activities in Australia building on strong multiyear relationships with key clients such as Woodside, Chevron and Santos. The outlook for further work is positive with multiple gas developments requiring backfill for existing LNG infrastructure as well as longer term opportunities in carbon capture and offshore wind.

Subsea Tendering Remains Very Active

Now on to a review of our tendering pipeline on slides 13 and 14. Bidding for subsea work remains very active and our tenders inhouse totalling $21 billion. Conversations with our clients about our solutions and capabilities to deliver their projects provide visibility and supports our positive outlook into 2026 and 2027. The key deepwater region is of course Brazil where we are well positioned to win our fair share of the up and coming Buzios phases. Negotiations to extend the long term charters of our pipeline support vessels are also ongoing. We also remain optimistic for awards this year in the Gulf of Mexico where bidding activity remains high and Turkey where our strong track record leaves us well placed in bidding work for the future. Overall we are confident that we have a strong tendering pipeline that can support continued momentum in our Subsea order intake.

Offshore Wind Prospects are Maturing in 2024

On the next slide, we have our wind prospects. After the challenges faced by the industry in 2023 the outlook for new orders in 2024 is positive with an active CFD allocation round expected in the UK this summer and continued strong tendering activity in Continental Europe. Longer term we expect US tendering activity to rebound as developers rework their plans to reflect the current cost and improved power price environment.

At Least $1 Billion Shareholder Returns in 2024-2027

Turning to slide 15. Reflecting the board's confidence in the outlook for the long term financial performance of the Group we have announced today a commitment to shareholder returns totalling at least $1 billion over the four years from 2024 to 2027 and that's through a combination of dividends and share repurchases. Subject to shareholder approval at the AGM on 2nd May the regular dividend will increase to NOK 6.00 per share from NOK 1.00 per share paid in two equal instalments in May and November. This represents approximately $170 million and equates to a dividend yield of 1.4% based on yesterday's closing price of NOK 147. In 2024 the company intends to distribute approximately $80 million through share repurchases resulting in a distribution this year of approximately $250 million, a total yield of 6%. This commitment extends the Group's track record of shareholder returns to over $3 billion since 2012.

Delivering Shareholder Returns

To wrap up we'll turn to our final slide on page 16. Subsea 7 delivered a strong underlying performance with adjusted EBITDA for the full year of $714 million. Our working capital position unwound in the second half including a strong inflow in Q4 and notable improvements in cash conversion. In 2024 we have high visibility on sustainable growth in our EBITDA combined with a significant reduction in our capital expenditure. The expected increase in free cash flow in 2024 and beyond has underpinned a renewed commitment from management and the board to shareholder distributions of at least $1 billion over the coming four years. And with that we'll be happy to share your questions.

[00:15:07]

Q&A

Operator: Thank you. Dear participants as a reminder if you wish to ask a question please press star one one on your telephone keypad and wait for your name to be announced. To withdraw your question please press star one one again. Please stand by. We'll compile the Q&A roster. This will take a few moments.

And now we're going to take our first question and it comes from the line of Kévin Roger from Kepler Cheuvreux. Your line is open. Please ask your question.

Kévin Roger (Kepler Cheuvreux): [00:15:35]

Yes good afternoon, thanks for taking my questions. I will ask two if I may. The first one relates to the expected order intake and commercial dynamic because basically one of your main peer has increased recently its objective in terms of order intakes for the next three years mentioning the strength of the cycle. So I was wondering if there is any direct read-across for you if you share this sentiment that also on your side if you do not share with us some specific number you – you have also right now a positive statement – better statement from the expected order intake in the Subsea business. And as a kind of follow-up on the offshore wind business, what will be the kind of order intake that you will target for the coming year?

And the second one would be related to the working cap. So working cap has been probably much better than expected. What would you – what should we expect basically for 2024 and 2025 working cap movement, please?

John Evans: [00:16:43]

Thank you Kévin. So in terms of the Subsea business we see the same market as our peers see which is still a very strong market. A lot of very positive engagements with our clients and we're now moving into the 2026-2027 arena or workload, and that continues to be strong. So again the direction of travel is very similar for Subsea 7 and its peers. And we remain very confident that we will get a good share of our work. We have a number of partnerships and frameworks which are strong and we see work with those clients being very important for us. And as I touched in my prepared remarks, you know, we are very, very strong in Brazil and I was down in Brazil a month ago and the continued message there from Petrobras is they have a large portfolio of work to liquidate over the coming 3-4 years. And they expect Subsea 7 to be a key player in delivering that. So we are very comfortable that the direction of travel in Subsea is very strong. I'll ask Stuart to give you an update on the offshore wind and then Mark can take your working capital question.

Stuart Fitzgerald (CEO Seaway 7): [00:17:49]

Thanks John. So I think to comment on the forward outlook on order intake in offshore wind, current position is good with $2 billion of backlog and significant coverage of our fleet utilisation over the next two years. We would expect that to continue to replenish with the market outlook we see and a key factor in the scale of order intake over the next couple of years will really relate to the portion of EPCI work. Current backlog contains limited EPCI. There are no Seagreen-size projects in the backlog. If we see further EPCI coming into the backlog, then the rate of order intake could lift.

Mark Foley: [00:18:39]

Hello Kévin. Thank you for your question. So maybe to set the context and as we signalled to the market, in 2023 we saw a temporary build in our working capital. In fact, the first half of the year our build was $400 million, and as we had expected that unwound in the second half of the year. Actually unwound slightly stronger than I had anticipated. If I look to 2024 I would expect us to be broadly neutral in terms of the exit rate for 2023 but as you know, we can have significant variations quarter to quarter depending upon project milestones. So very pleased in terms of what we achieved in 2023 and that was very much in line with what we had communicated to you and the market.

Kévin Roger: [00:19:38]

Okay. Thanks a lot. Thanks.

Operator: Thank you. Now we're going to take our next question. Please give us a moment. And the next question comes from the line of Victoria McCulloch from RBC. Your line is open. Please ask your question.

Victoria McCulloch (RBC Capital Markets): [00:19:57]

Morning, thanks very much. First one for Mark. Just on the timing of capex how should we expect that to – I guess just to view it across the quarters obviously the payment to the OneSubsea JV is quite clear but, you know, where should we see the remainder of the capex throughout the year?

And then not to be negative but, should there be a turn in the offshore cycle late this year or into 2025, what proportion of the $1 billion payout do you see as being sustainable across that period from 2024 to 2027? Thanks very much.

Mark Foley: [00:20:31]

Okay. So first thing Victoria, the investment in the OneSubsea joint venture is not included in our capex guidance. That is excluded and as we've communicated that will happen in end of June this year, the $153 million [second payment]. In terms of the capex over the course of the year it will be more biased towards the first half than the second half. So hopefully that gives you some clarity on the evolution of that spend.

John Evans: [00:21:08]

Your other question was about the market. As we said, we can see a very strong market in our two core businesses. In particular, in the Subsea business. Our commitment is to deliver at least $1 billion to our shareholders over the next four years. And our board will look at it on a year-by-year basis. We expect the market to continue to strengthen. We expect our free cash flow to continue to be very strong. So again, this time next year we'll look at it again. So this year we've a very clear commitment to $250 million of that $1 billion, and again we will take a review of it this time next year. But direction of travel in the market looks strong for us at the moment.

Victoria McCulloch: [00:21:51]

Super. Thanks very much.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Lukas Daul from Arctic Securities. Your line is open, please ask your question.

Lukas Daul (Arctic Securities): [00:22:08]

Thank you. Good afternoon. I was wondering regarding your 2024 EBITDA guidance, could you say whether the contribution from OneSubsea is included in that number and what would be the size of it?

Mark Foley: [00:22:29]

Yeah, this is Mark. Yes, the contribution of our share of net income of the OneSubsea joint venture is included. The quantum … hasn't been shared by the majority shareholder so hence that would be inappropriate for me to share in the call.

Lukas Daul: [00:22:55]

Okay, fair enough. And your tax rate guidance, 35-40%, how much of that would you say would be payable tax?

Mark Foley: [00:23:10]

Generally, as a rule of thumb, we should link the taxation in the income statement with the taxation that we see in the cash flow statement.

Lukas Daul: [00:23:23]

Okay. And then finally you mentioned or John mentioned the PLSV tender in Brazil. Could you give us sort of the like the update on how that process is progressing?

John Evans: [00:23:38]

Yeah, so the PLSV tendering process is ongoing. Petrobras are working their way through the various requirements. There were a number of different criteria for different classifications of vessels. They expect to conclude that at the end of March/early April. So we would expect the clarity during Q2 and I remain comfortable that we'll certainly get our fair share of that work.

Lukas Daul: [00:24:04]

Okay. That's all. Thank you very much.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Guilherme Levy from Morgan Stanley. Your line is open, please ask your question.

Guilherme Levy (Morgan Stanley): [00:24:24]

Hi, thank you for taking my question. It's related to Brazil too. So I was wondering earlier this year we saw one of your competitors there being affected by a two-year ban. So I was just wondering if you can say a few words on the competition environment in the country at the moment. And if this change in the competitive environment recently if it gives you more pricing power or if there is any risk that Petrobras might actually need to delay the processes on the back of lack of bidders. And in that sense, would you be keen on taking more than one FPSO if you had the chance or better said if – do you have any capacity to do more than one FPSO there? Thank you.

John Evans: [00:25:19]

Yeah thank you Guilherme. I'm not going to comment on our competitor's position. All I can give you is feedback from our discussions with Petrobras which as I said were in the last month. They see Subsea 7 as a key supplier, a very solid performance supplier that's been there for many decades. They see that we deliver their projects well for them and I would expect us to get our fair share of Buzios packages between nine and 11 which is the current three. All three have FPSOs ordered so I don't believe the client is thinking about delaying anything cos they have FPSOs which will turn up and will need certain infrastructure put in place. So at the moment we're concentrating on the near-term opportunity but there are three very large packages there. We do have the capability and capacity inside our global fleet to execute those type of projects. And so for us it's just about how the timing of these projects fit together and how do they work. So for us it's a good dialogue we're in with Petrobras at the moment and I'll leave it at that for the time being.

Guilherme Levy: [00:26:27]

Thank you.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Haakon Amundsen from ABG Sundal Collier. Your line is open, please ask your question.

Haakon Amundsen (ABG Sundal Collier): [00:26:48]

Yes, thank you. Just a question on the bit of a longer term outlook. I know you won't guide specifically but I'm just wondering whether we were likely to see that activity levels are levelling off after 2025 simply from a lack of vessel capacity in the Subsea market? So that we should expect more and – more lower or kind of moderate growth or a flattish market beyond that?

And then secondly on the pricing power that of course would have positive impact on that so that we should expect, you know, you have to have room to further expand your margins beyond 2025. Thanks.

John Evans: [00:27:29]

Yeah, thanks Haakon. At the moment we don't see any slowdown at all, you know. Petrobras's latest five-year plan was 14 more FPSOs to be installed in the next five years. So they continue to push ahead at full steam with their proposals. We see the Gulf of Mexico continues to be strong for us. We are very generally not that much affected by the changes in Saudi because we have a relatively small business there in Saudi. As I discussed in my prepared remarks, Australia has a need to bring on more LNG gas supply into those big LNG plants towards the end of the decade. We're currently within Block 58 in Suriname, a new arena that's opening up and we continue to see Guyana where we're about to start working on gas export lines in Guyana this year. Again offering more opportunity there. So at the moment we remain positive towards the fact that the opportunity set in 2026-2027-2028 look very strong. And that's what our client discussions are about. Clients are talking about availability how do they get capacity and capability in terms of people, equipment, ships in place. And similarly I think if we look at the wind sector as we discussed in the prepared remarks again, UK government has really listened to the industry and understood about the challenges of getting CFD price right. This year CFD rounded at 66% higher price for the megawatt hour than the failed bidding round last year. So again, I think it's fair to say that we're in a number of very positive and structured dialogues with clients about how we can support them in the outer years there as well. So for us, both our businesses at the moment direction of travel seems to be very positive for us and we don't see any real slowdown at this stage.

Haakon Amundsen: [00:29:19]

Okay. That's very clear on the demand side but do you think the industry kind of in particular the subsea vessel capacity is sufficient to support further growth beyond 2025?

John Evans: [00:29:35]

Well, as we've discussed before, we – we've always had a model of enabling assets being owned by Subsea 7 and we bring chartered tonnage in to supplement our fleet. And if we look at slide 23, if we can put that up on screen Katherine, we've shown you in the appendix at the back our fleet optimisations and how we bring tonnage in and how we move tonnage around inside the fleet. So again, you know, Subsea 7 is very proactive. We bought the Boka Sub C in to do a couple of years work for us. We're bringing the Skandi Acergy in. So again for us we continue to strengthen our fleet both in heavy construction vessels as well as lighter construction vessels. We've optimised the fleet. The Seaway Alfa Lift in wind has come in, a big state-of-the-art dynamic positioning asset. And then we've let go of Seaway Yudin which was a moored asset which did fantastic service for us for many years. So again, we keep optimising the fleet to make sure that we're prepared for what's ahead of us. So at the moment, it is part of a process that is a well-rehearsed part of our business I would hasten to add I think. So we're pretty comfortable that we can get to where we need to be.

Haakon Amundsen: [00:30:47]

Alright. That's very clear. Thank you.

Operator: Thank you. Now we're going to take our next question. Please give us a moment. And the next question comes from the line of Kate Somerville from JP Morgan. Your line is open, please ask your question.

Kate Somerville (JP Morgan): [00:31:08]

Hi good morning, thank you so much for taking my questions. Two from me if I may. First is on escalations. I think they made up about 50% in Q4. I'm just trying to understand what has driven this and what you're expecting from that front going into 2024.

And then the second question is on your sort of optimisation and potential leasing strategy, you know. You sort of talked about a very strong market and some of your competitors this morning have been talking about moving to a sort of more asset light leasing strategy to cope with the increase in demand. Is that something that you're looking at as well? I believe you have spoken about it before but we'd love an update. Thanks.

John Evans: [00:31:54]

I think we're slightly in a different place. You need assets to do this work so an asset light model I'm not sure is the way to go here. We are very much into a world where we are very clear that you need assets to liquidate this work and our model has always been a combination of owned assets and chartered assets. And as I answered in the last question, we're very clear here as to how we intend to make sure that we can capitalise on the opportunity sets ahead of us. So for us, we feel comfortable with that model. We think it's a much stronger model cos ultimately we own the largest and youngest fleet in the industry. So when times get very, very tight in terms of capacity we're in the right place on that discussion.

On the escalations I'll pass you over to Mark to discuss those.

Mark Foley: [00:32:39]

Yes, thanks Kate. So escalations in the quarter were $600 million, half the total order intake. Escalations in this instance were driven by variation orders. Now variation orders are a characteristic of our industry and that is where the client has a change in contract for us to do more work, change the timing or whatever it may be which is a variation order. So that was across several projects within the portfolio. The other part of your question is more challenging. How do we forecast that? It's very difficult to forecast because that is at the behest of the client in terms of how they want us to proceed with the work. However, it does represent a driver, a contribution to our backlog but it would be somewhat inappropriate for me to speculate in terms of how I expect that to evolve during the year or indeed any year.

Kate Somerville: [00:33:42]

Understood, thanks very much.

Operator: Thank you. Now we're going to take our next question. And the next question comes from the line of Christopher Møllerløkken from SpareBank1 Markets. Your line is open, please ask your question.

Christopher Møllerløkken (SpareBank1 Markets): [00:34:04]

Yes, good morning. This is Christopher Møllerløkken from SpareBank1 Markets. Of course, Brazil's an important market for you. At the same time Petrobras is struggling to attract interest in its FPSO tenders – those tend to become more and more costly and FPSO companies are struggling to attract the required financing from their banks. And also they complain about a risk/reward profile in the Petrobras tenders and the local content requirement. Do you see this as a risk for SURF tenders, that these projects also will be pushed out in time as there seems to be an ongoing debate between the FPSO industry and Petrobras as the key client? Thank you.

John Evans: [00:34:56]

Yeah, thank you Christopher. As I said in the – one of the previous questions certainly Buzios 9, 10 and 11 the FPSOs are all ordered and on – and, you know, have been committed. But again the SURF elements of those projects will certainly push ahead. So we don't see that as being a near term challenge. I think it's fair to say that since we interact with the FPSOs day-to-day as part of our business, how all that fits together, is one of the opportunities the industry has to optimise how it works. So for us at the moment when I spoke to Petrobras they were very clear that they were going out to seek SURF capacity to match their plans. And therefore then the opportunity sets for us were very, very clear. Timing of FPSO arrivals and stuff we work a big fleet across the globe and that's part of day-to-day business for us is working inside the windows that our clients have for FPSOs and such like. So by having a very strong global presence, a very strong set of client relationships, we generally can work through different windows that our clients give us for FPSOs. So for us I think the direction of travel is strong. Yes, an industry that needs an FPSO and a SURF and a hardware side, we're comfortable that the Subsea hardware side from our discussions with our colleagues at OneSubsea that hardware side is there to support the next five years. We believe that the SURF sector is there as well and we do believe that there are enough heavy duty top-end FPSO providers as well to provide what the industry needs. How their business model adapts and changes, maybe that's part of the discussion that needs to happen.

Christohper Møllerløkken: [00:36:40]

Thank you.

Operator: Excuse me Christopher, are there any further questions?

Christopher Møllerløkken: No, I'm fine, thank you.

Operator: Thank you. Now we're going to take our next question. Our next question comes from the line of Mick Pickup from Barclays. Your line is open, please ask your question.

Mick Pickup (Barclays): [00:37:08]

Good morning everybody, thanks for taking my question. A couple of questions just on the Renewables and heavy lifting fleet if I may. And I have to say it's sad to see the Yudin go after all these years. And so firstly on the Alfa Lift and the Ventus obviously new vessels. What are the challenges about getting them up and running? And secondly the transportation fleet, can you just tell me how busy that is? I'm just thinking with all the Renewables work I've seen some oil & gas work in there as well so what's that looking like at the moment?

John Evans: [00:37:38]

I'll ask Stuart to take those questions Mick, thank you.

Stuart Fitzgerald: [00:37:41]

Yeah, so the Alfa Lift, I would say normal teething problems but quite productive over the last period installing transition pieces for the Dogger Bank project. And that scope of work will continue through 2024 and 2025. So I would say yes, bringing new tonnage into the fleet has its early teething problems and hiccoughs but we're in good flow now on the Alfa Lift. And the

Ventus looks to be in good shape. We'll start its mobilisation for the Gode Wind project in Denmark in the second half of March with the start in the beginning of April. And we're also comfortable and confident about the status of that – of that ship that's in the final stages of transit.

In terms of the HTV fleet it was a busy year last year driven I would say more by oil & gas activities than Renewables activities. What we are seeing now is an increasing number of longer term renewables contracts. This year one of the vessels goes onto a seven-month commitment for DEME transporting jackets backwards and forwards out in Asia. We are bidding multiple prospects I would say for longer term, longer visibility commitments in Renewables but current activity still remains dominated by either special transport or oil & gas rig moves.

Mick Pickup: [00:39:34]

Okay. Could you send us photos of when they've come out? I quite enjoy them.

Stuart Fitzgerald: [00:39:39]

We will do. We will do.

Mick Pickup: Thank you. Have a good day.

Stuart Fitzgerald: Thanks.

Operator: Thank you. Now we're going to take our next question and the next question comes from the line of Mark Wilson from Jefferies. Your line is open, please ask your question.

Mark Wilson (Jefferies): [00:39:59]

Yeah thank you, good morning. It kind of follows on from Mick's questions before. I'm just wondering about Renewables and the margin shift as we go into 2024. You've got the Ventus starting up so there should be more installation work in your $1 billion of Renewable backlog. So I was just wondering your margin is now almost equivalent to where the Subsea is at 14% in 4Q. Would you see that stepping further in Renewables because of more installation in 2024 and potentially with a higher margin than the Subsea? That's my first question, thank you.

Stuart Fitzgerald: [00:40:38]

We would say margins in line with, you know, current performance. Incrementally improving. More capacity yes. More volume of pure installation activity yes. But margins… I wouldn't like to say that they're moving up above the Subsea and Conventional market. As said before on one of the earlier questions in 2024 no real large EPCI project in there as per a Seagreen[-size/style contract]. And that's – you know, that may come with new EPCI work in 2024 but particularly in the UK market. But the 2024 currently no large EPCIs in the backlog.

Mark Wilson: [00:41:38]

Okay, very clear. My second question's on OneSubsea just so I understand correctly. So the share – your net share of net income is embedded in Subsea EBIDA as I understand it. Are there any other areas we should be included in OneSubsea? Either capex or such things in our models going forward. Thanks.

Mark Foley: [00:42:03]

No Mark. So where you will see OneSubsea in our financial statements is in two places. The first being the share of net income on OneSubsea in the income statement. And then secondly on the balance sheet our investment in the associate. So to be absolutely clear any capital expenditure associated with OneSubsea is not included in our financial statements.

Mark Wilson: [00:42:36] Okay thank you very much. I'll hand it over.

Operator: Thank you. Now we're going to take our next question and the question comes from the line of Kate O'Sullivan from Citi. Your line is open, please ask your question.

Kate O'Sullivan (Citigroup): [00:42:54]

Hello, Kate O'Sullivan with you. Thanks for taking my questions. Could you just talk about your capital allocation priorities that may inform what level shareholder distribution you land on each year as part of that at least $1 billion return over the period? Is there any flexibility to distribute above your regular dividend, via a special or growing or is it firmly share buyback? If you could just confirm. Then apologies if I missed it but on slide 20 your costs, could you just give some further colour on the increase in your direct project cost and the outlook here? Thank you very much.

John Evans: [00:43:30]

Okay so maybe we go back to your first question. As you know we as a company have a triangle that we have used for many, many years to look at how we look at using our money. Shareholder returns is a key priority and the statements we've made today show again the support that management and the board have that we will have a strong free cash flow in the future. We also look at potential investments in the business and we also make sure that we have an investment grade balance sheet so we always make sure that the three sides of that triangle are very strong for us. The commitment we made today is at least $1 billion over the four years and we have declared where we're at for this year. As I mentioned in a previous question we will look at it on a yearly basis with the board and with management. The clear commitment from us was to adjust our dividend from NOK 1.0 per share up to NOK 6.0 per share so that is cast in stone. So you can model that going forward. And then the remainder then we will look at instruments such as share buybacks or special dividends as the vehicle to return more money back to our shareholders. So I think that's the way to look at the capital allocation. On your question on the cost overview I would suggest that Mark gives you the building blocks of what we show on that slide. Thank you.

Mark Foley: [00:44:53]

Yes, Kate so the slide shows the trend in our costs from 2015 to 2023. As you can see between 2022 and 2023 there has been an uptick in the cost that directly correlates with the increase in our activity. So as a calibration point our revenue increased from $5.1 billion in 2022 to almost $6 billion in 2023. And the largest part of that of course is direct project cost we require to procure and steal equipment, etc in order to deliver the solutions to our clients. We see some other changes as well as we gear up for the workload that we have embedded within our backlog. And again as a reminder our $10.6 billion backlog at the end of 2023 is the highest we've had at year end since 2013. And together with the tender pipeline prospects that we see almost $30 billion across the two businesses means that we have to increase our headcount in anticipation of that. So hopefully that provided some additional colour on the switch between 2022 and 2023.

Kate O’Sullivan: Yeah, great. Thanks very much.

Operator: Thank you. And now we’re going to take our last question for today. And the question comes from the line of Richard Dawson from Berenberg. Your line is open, please ask your question.

Richard Dawson (Berenberg): [00:46:32]

Hi good morning and thank you for fitting me in. Just two questions from me please. Firstly, just given the high backlog for 2024 what does vessel utilisation look like for your key vessels this year and next? I’m just trying to gain a sense of whether there’s scope for more work to be won this year and delivered and what sort of work that would be. And then secondly and apologies if I missed it but can you give some more colour on the impairments taken this quarter and whether there’s any risk to the other offshore wind projects within your backlog? Thank you.

John Evans: [00:46:59]

Okay thank you. I’ll take the 2024 utilisation and Mark can take the impairments. So for us utilisation as we show in the material we give you at the front part of our deck here, we have a very high committed backlog already in terms of where we’re at here. So we are pretty clear on how we will execute our work and our utilisation this year. We have some new tonnage coming in as we showed in slide 23 and that tonnage also assists us on some of our more spot work like IRM work with Jones Act vessels in the US. We’re also starting renewable work in the US this year on Ørsted’s Revolution. So we have some capacity but generally bigger projects the timescale would mean that anything new that we would take on now would be going offshore beyond 2024. But we have some flexibility in the heavy construction vessel and the lighter construction vessel to take some last-minute work on if needed. But I wouldn’t bank on that as being the main drivers for this year. And I’ll hand over to Mark to talk about the impairments.

Mark Foley: [00:48:09]

Sure. Good afternoon Richard. Richard two impairments which were covered in the earnings release and they are not related to projects. They are related to property, plant and equipment within the Renewables business unit. The first was the impairment on the Seaway Yudin which we have subsequently sold the early part of 2024 so that vessel has now left the fleet. And the other is in relation to monopile installation equipment. We have a contractual dispute with the provider of that equipment and both those elements have contributed to the almost $74 million impairment that we had at Group level. That being said we had an impairment reversal in the quarter from a prior year and that resulted in net impairments of around just under $50 million in Q4.

Richard Dawson: [00:49:11]

Yeah, thank you for that clarity.

Operator: Thank you.

John Evans: [00:49:15]

Okay. Thank you very much everybody for your questions. We appreciated the input you gave us today. I know it's been a very, very busy morning for you but we look forward to catching up with you in a couple of months' time. As I've said with the direction of travel and strong view we remain confident of the next few years for our business. And as you've seen our board and our management are aligned to make sure that we focus on shareholder returns in the coming years. So thank you and we'll talk to you again soon.

Operator: That does conclude our conference for today. Thank you for participating. You may now all disconnect. Have a nice day.

[END OF TRANSCRIPT]