Q4 2022 Results Conference Call

Thursday, 2nd March 2023

Operator: Good day and thank you for standing by. Welcome to the Subsea7 Q4 2022 Results conference call and webcast. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you need to press star one and one on your telephone. You will then hear an intermittent message advising your hand is raised. To withdraw your question, you can please press star one and one again. Please note that today's conference is being recorded.

I would now like to hand over to your speaker, Katherine Tonks, please go ahead.

Introduction

Katherine Tonks

Investor Relations Director, Subsea7

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

2022 Results

John Evans

Chief Executive Officer, Subsea7 S.A.

Thank you, Katherine and good afternoon, everyone. I will start with some introductory remarks before passing over to Mark to cover the financial results.

2022 – Accelerated pace of recovery

Turning to slide 3, 2022 was a year of strong momentum for Subsea7. The increasing tendering activity that we'd experienced a year ago translated into the highest level of order intake we've seen since 2013, at over $7 billion. This resulted in a backlog of $9 billion, up 25% year-on-year. We have good visibility on revenue in 2023, and improved visibility on 2024 and 2025.

As the year unfolded and vessel availability became tighter, new awards began to reflect improved pricing. This underpins our confidence that EBITDA margins will return to a through-cycle range of 15-20% over the long term. During the year, we made good progress in our strategies for both the subsea and wind businesses, which I will recap later.

Major projects – making good progress

Turning to slide 4, for an update on our progress on our largest projects in the fourth quarter. In Turkey, the fast-track Sakarya project has reached 89% progress, up from 73% in Q3. Seven Arctic, Seven Oceanic and Seven Pegasus were active throughout the quarter and the project is nearing completion in Q1 2023.

Sangomar reached 72% completion, as Seven Vega and Seven Sisters continued pipe lay in Senegal.

In Brazil, we began operations for Bacalhau at the Ubu base and the Seven Pacific commenced offshore operations. Procurement continued for Mero 3.

Also, in subsea and conventional, our major vessels were busy on the TOPR project in Trinidad and Tobago, on Mad Dog 2 in the Gulf of Mexico, and they worked on the Hywind Tampen floating wind project in Norway.

In renewables, we had installed 93 foundations and more than 50% of cables for the Seagreen project by the end of December. This has increased to 105 foundations installed as of today, allowing us to demobilise the marshalling yard in Scotland. We remain on track to complete the work in the first half of this year.

Finally, we continued the offshore activities on Dogger Bank A&B with the Seaway Strashnov and reached 33% completion. The vessel left the field for the winter season in early December, as planned, and will return this year to continue the offshore phase.

Backlog – strong growth

Turning to slide 5, 2022 saw the highest order intake since 2013 and a book to bill ratio of 1.4.

Recovering market – highest order intake since 2013

The recovery in the market is illustrated on slide 6, where you can see the momentum in our order intake and backlog. With an industry downturn followed immediately by the disruption of the COVID pandemic, the last cyclical downturn was prolonged, but the recovery is now well underway.

Recovering market – enhanced revenue visibility

On slide 7, we break down the backlog by year of execution. Our visibility on the year ahead is at a similar level to prior years, whilst the visibility for year two and year three has improved markedly as vessel availability tightens and clients began booking capacity well in advance to secure their project timelines.

Recovering market – Adjusted EBITDA margin expansion

Turning to slide 8, you can see our historical group margins. We have seen a strong improvement in the margins on the projects <u>awarded</u> during 2022 that *sit in our backlog today*. These projects will be executed in the coming three years and will gradually drive margins back to the through-cycle range of 15% to 20%.

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

Financial Results 2022

Mark Foley

Chief Financial Officer, Subsea7 S.A.

Full year 2022 – Group

Thank you, John, and good afternoon, everyone. I will begin the financial performance review with some details of group and business unit performance in the year, before returning to the group cash flow, guidance for 2023 and some comments on shareholder returns.

Slide 9 summarises the full-year performance of the group. As John has already discussed, we delivered strong order intake and backlog growth, driven by both new awards of $5.3 billion and by variation orders and escalations, which together represented $1.8 billion or 26% of order intake.

Group revenue increased moderately to $5.1 billion as we continued to execute large projects in subsea and fixed offshore wind. Adjusted EBITDA of $559 million was up 7% compared with the prior year, and the margin increased 49 basis points to 10.9% from 10.4%, reflecting steady progress on major projects.

A high effective tax rate, due to a shift in operational profitability towards higher tax jurisdictions and the impact of irrecoverable withholding taxes negatively impacted net income, which was flat year-on-year at $36 million.

I will now discuss the drivers for the group performance in the next few slides.

Full year 2022 – Subsea and Conventional

Slide 10 presents the key metrics for subsea and conventional. Order intake was $6.2 billion, equating to a book to bill of 1.6 X and resulting in a backlog growth of 37% to $8.1 billion.

Key contracts included Yggdrasil, part of the Aker BP awards in December in Norway; Búzios 8 in Brazil; Cypre and Shenandoah in the Gulf of Mexico; Gas-to-Power in Guyana; and Clov 3 in Angola.

Revenue was $3.9 billion, up 6% year-on-year, reflecting good progress on the fast track Sakarya project, Sangomar, Bacalhau as well as our other large EPCI projects.

Adjusted EBITDA was $532 million, with a margin of 13.6%, up slightly from the prior year. This reflects a continued solid operational performance on projects on reduced margins during the downturn.

Full year 2022 – Renewables

Selected renewables performance metrics are shown on slide 11. Order intake was around $800 million, taking the backlog to $800 million. Seaway 7 has been awarded preferred supplier status on several projects, and these should rebuild the backlog over the coming months. Revenue was $1.1 billion, down 11% year-on-year, mainly reflecting the field activity on the Seagreen project.

Adjusted EBITDA was $5 million, flat year-on-year, resulting in a break-even adjusted EBITDA margin.

This weak performance reflected challenges on the now completed Formosa 2 project, and the foundation installation scope of Hollandse Kust Zuid, despite good progress on Seagreen, Hornsea 2 and the cable lay scope of Hollandse Kust Zuid. However, the adjusted EBITDA margin improved in the fourth quarter to 12.9%.

2015 - 2022 costs overview

On slide 12, we revisit our cost histogram that shows our costs segmented into four categories. 2019 and 2020 reflect the impact of the industry downturn, followed by the COVID-19 pandemic and associated global economic slowdown. Since then, costs have trended upwards in line with the industry recovery.

Direct project costs are a function of the volume, mix and phasing of our activities and the pricing environment for procurement. In 2020, despite high inflation in the global economy, our procurement costs remained stable at $2.9 billion, reflecting the phasing of major projects and the back-to-back contracts with our suppliers that lock in prices at the time of initial contract awards.

Our people costs increased to approximately $1.2 billion in 2022, as we expanded our engineering and project teams to address the continued increase in the industry activity.

Vessel and other costs increased to approximately $500 million. We ended the year with 36 vessels in our active fleet, up from 34 at the end of 2021, with the addition of chartered vessels, including IRM and a heavy transportation vessel.

Full year 2022 – strong cash flow

Slide 13 shows the cash flow waterfall for the year. Net cash generated from operating activities was $486 million, including a modest $27 million favourable movement in working capital. The working capital outcome was better than anticipated at the start of this year, as a result of project re-phasing into 2023, as well as management’s further efforts to optimise cash.

Cash conversion, measuring the conversion of EBITDA into adjusted operating cash, was 1.1X. Net cash used in investing activities was $220 million, mainly attributable to purchases of property, plant and equipment, including vessel dry docks and upgrades. This fell below our prior guidance of $420-440 million, as stage-gate payments in relation to the construction of Seaway Alfa Lift and Seaway Ventus were deferred into 2023.

Free cash flow in the period was $255 million. Net cash used in financing activities was $221 million. This included $111 million of lease liability payments (mainly related to chartered vessels) and returns to shareholders of $78 million in the form of the regular dividend of $32 million and $46 million partial completion of our $70 million share repurchase programme. The remaining $24 million will be returned to shareholders as part of the proposed NOK 4 per share dividend payment in 2023.

At the end of the year, cash and cash equivalent was $646 million and net cash was $33 million, which included lease liabilities of $257 million. The group’s liquidity included $1 billion of committed, undrawn borrowing facilities at year end.

Group financial guidance for 2023

To conclude, slide 14 shows our guidance for the full year and I will make some comments regarding shareholder returns. Revenue and adjusted EBITDA are expected to be higher than

2022, while net operating income is expected to be in line with last year. Net finance cost is expected to be between $45 million and $55 million. This reflects the elevated level of the investment in the business in 2023, including the new-build wind vessels, the SLB joint venture and working capital commitments, which is amplified by the notable spike in borrowing reference rates over the last 12 months.

Capital expenditure is expected to fall within the range of $625-650 million. As I mentioned on the prior slide, this is higher than the prior 2023 capital expenditure guidance due to the deferral of some payments related to Seaway Alfa Lift and Seaway Ventus. There is no change in our current view of the capital expenditure required for these two vessels.

Lastly, the board shares management's confidence in the outlook for the Group and, as such, will propose a NOK 4.00 per share dividend at the AGM on the 18th of April, including the NOK 1.00 per share regular dividend. This proposed dividend equates to a 3% dividend yield based on yesterday's closing share price of NOK 135, or a 4.4% dividend yield based on the 12 months volume-weighted average share price of NOK 90.

I will now pass you back to John.

2022 Strategic Progress

John Evans

Chief Executive Officer, Subsea7 S.A.

Strategic progress in 2022 - communicating our strategy

Thank you, Mark. On slide 15, we have a reminder of our strategy. 2022 underscored the importance of both traditional and new sources of energy in addressing energy security and the energy transition. Under almost all transition scenarios, the development of lower-carbon oil and gas, alongside growth in renewables, will be essential to deliver reliable, affordable energy to the global population.

Subsea7's role across the energy landscape makes us an important contributor to this transition and more relevant than ever to our clients today.

Strategic progress

On slide 16, we have a recap of the good progress we've made in our strategy this year. In subsea and conventional, we capitalised on our strong alliances, with the evolution of our relationship with SLB, that will ensure we are well positioned for the future in subsea, as well as generating an attractive standalone return.

In the fourth quarter, our alliance with Aker BP yielded us our largest award, worth around $1.8 billion, and demonstrated the benefits of collaboration from early stage to optimise subsea developments.

Finally, in subsea, we have long-held strategy to *own* our key enabling assets. These are our largest and most capable vessels that are critical to winning and executing projects. Demand for these vessels increased in 2022, and tightness in their availability supported improved pricing and margins.

In renewables, in 2022 we had a couple of challenging fixed offshore wind projects, and although the losses these generated were relatively modest in the context of the Group, the performance was not acceptable. We have taken decisive steps to rebalance risk and reward on our future contracts, and we are confident that our pre-backlog and our ongoing tenders will deliver an improved financial performance.

We also recently agreed a collaboration with Saipem, targeting large integrated and EPCI projects.

In our strategy for emerging energies, we also made progress. We attracted Ørsted as a cornerstone investor in the Salamander floating wind project. We are moving into the execution phase of the Northern Lights carbon capture project. And through our subsidiary, Xodus, we are building a presence in the hydrogen study market.

Strategic progress in 2022 - Sustainability

Turning to slide 17, I will discuss the progress we've made towards our sustainability goals, which form an important part of our strategy across all our markets. Starting with safety, 2022 was a good year for Subsea7, achieving a very low lost time injury frequency of 0.01.

Regarding emissions, we made good progress on the pathway to Net Zero with a successful trial of clean fuels on the Seven Oceanic and a commitment to hybridise a second vessel, the Seven Arctic.

We also made progress in our environmental initiative with the National Oceanography Centre, with a further two BORAbox sensors deployed in Brazil and Norway.

This is just a brief overview of our sustainability initiatives and you can read about them in more depth in our core sustainability report that will be published in March.

Increasing our ownership of Seaway7

Turning to slide 18, this morning Subsea7 has announced the acquisition of 21.52% of Seaway 7 from Songa Capital, Lotus Marine and West Coast Invest. All three parties have agreed to participate in an exchange offer and receive one new Subsea7 share for every 22 Seaway 7 shares they own.

Following the transaction, Subsea7 will own 93.94% of Seaway 7 and has launched a voluntary offer, with the same terms, to the remaining shareholders. We believe the market significantly undervalues Seaway 7 and that this transaction with be value-accretive to Subsea7 shareholders.

Outlook - subsea prospects

Moving to our customary review of our tendering pipeline across the subsea and wind businesses on slides 19 and 20. Tendering remains very active, and we are very optimistic that 2023 will be another good year for order intake. The most active markets are Brazil, where we have a long list of prospects for both Petrobras and the IOCs; the Gulf of Mexico, with multiple tie-back projects in the tendering pipeline; Saudi Arabia, where we will bid a number of packages under the LTA; and Turkey, where we are bidding the second phase of Sakarya. Overall, we are confident that we have robust tendering pipeline that can support continued momentum in the subsea recovery.

Outlook – offshore wind prospects

On the next slide, we have our wind prospects. We are the preferred bidder for East Anglia THREE and Seagreen 1A, and these sit in our pre-backlog, along with Hai Long in Taiwan. In addition, we have a number of prospects that should mature in 2023 in the US, UK and Europe.

Order flow in this industry remains lumpy, often subject to slow government processes, but it is clear that the underlying demand is strong, and we are confident that this market will drive strong revenue growth in the long term, with improved project returns.

Stage set for a multi-year upcycle

To wrap up, we will turn to our final slide on page 21. In subsea, we have a well-developed strategy that is delivering, and we are solidifying our position for the future. A strong backlog supports our confidence in the outlook for the continued revenue growth and the recovery in margins back to through-cycle levels.

In wind, we are poised for long-term market growth, with the rebalanced risk and reward, which should drive improved profitability. Our own new build programme, in combination with our collaboration with Saipem (on a job-by-job basis) should open up new opportunities in this evolving market.

Finally, management's confidence in the future cash flow generation of the Group is shared by the board, which has proposed a dividend of NOK 4.00 per share for a total return of approximately $110 million. And with that, we will be happy to take your questions.

Q&A

Operator: Thank you. As a reminder, to ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, you can please press star one and one again. Once again, it is star one and one to register your question and wait for your name to be announced. We are now going to proceed with our first question. And the question has come from the line of Guillaume Delaby from SGCIB, please ask a question.

Guillaume Delaby (SGCIB): Yes, good afternoon, thank you for taking my question. I am going to start with a highly politically incorrect question. So, we all agree about the outlook for demand, I would like to speak a little bit more about supply. Because strictly speaking on the subsea space, we used to have a, let's say, highly oligopolistic market with three players, Saipem, TechnicFMC and yourself. So, on the one hand, there is now a commercial agreement between Seaway 7 and Saipem. Saipem has an agreement for its fleet with TechnicFMC and you are increasing your stake in Seaway 7.

So, my question is, is it fair to say that this oligopoly is even more oligopolistic than before? And this is probably further good news for pricing. So, I would like maybe to have your comments about the supply for both fixed offshore wind and for subsea. Thank you.

John Evans: Okay, I think we've been in this industry for many decades and so have many of our competitors been there. We also need to remember that McDermott have been a competitor for decades and continue to be a competitor in the subsea space as well. So, I think that, as we've discussed with our shareholders and the guys that follow us over the years, we have seen a number of the smaller players fall out through the last industry shake down. But I still think that there is a big supply capacity in the industry. But again, what we are seeing is a number of our clients do want to secure their capability in terms of assets and people at the right time in the cycle. So, we are seeing projects being awarded earlier than they would have been two or three years ago, and we are seeing the margins improve.

In wind, as we discussed previously, there are plenty of players in the wind sector and it is supplied by many Tier 1 players there. There are the large-bore dredgers along with Heerema, ourselves and Saipem. Saipem and ourselves have only come together on a job-by-job basis for some of the very larger projects where the combination of the two capabilities is good. And also, from a risk-sharing viewpoint; some of these larger projects need risk sharing between big contractors coming together.

So, I think the supply side on both markets has a reasonable supply side at the moment. The question is the timing at which the industry picks up its work and when that is awarded. So, at the moment, I think we see two very different markets: wind, with a number of big players; the subsea, there are four players in the subsea, always have been – ourselves, TechnicFMC, Saipem and McDermott. And there continues to be four big players that continue to bid for these projects. So, that is how I would recap the market at the moment. Thank you.

Guillaume Delaby: Thank you very much, very useful and I turn the call over.

Operator: We are now going to proceed with our next question. The question has come from the line of James Thompson from JP Morgan, please ask your question.

James Thompson (JP Morgan): Okay. Good morning, gents, thanks very much for the presentation. So, a couple of questions from me. Firstly, John, escalations have obviously been a very significant contributor to order intake this year. Obviously pricing of materials and things like that have obviously gone in the way that means those contracts do need to be varied. Could you maybe talk a little bit about risk of reversal of any of that in 2023? Obviously, the big tailwind, can that become a bit of a headwind to order intake with fuel costs going down and things like that? Maybe if you could talk a little bit about the escalations piece first.

John Evans: Yes, James, yes. As we've discussed, we have a way of trying to pass risks that we can't control back to our clients through some escalation mechanisms. We have some open book mechanisms with our clients; fuel, for example, we have mechanisms that can take fuel up and down. And those mechanisms work both ways. So, yes, we show $1.8 billion of escalations this year through our books, and yes, they will go up and they will go down as the markets that we're seeking protection also go up and go down.

I view that as a very positive process. Our industry is about allocating risk to the right people who can take the risks, and so, for us, we want to mitigate that risk. So, I would not bank on such a high level of escalations always coming through year-on-year, but those mechanisms are working as they were designed.

James Thompson: Okay, thanks. Second question is, this morning you announced that you're going to be taking back in-house Seaway 7. I was wondering if you could maybe sort of reflect on some of the decisions you made over – in terms of OHT, Seaway 7, over the past couple of years, because it feels like maybe in another world perhaps could have maybe tread a little bit more slowly in terms of the renewables build-up. But I just wondered if you could reflect on how that's gone so far and then how that is shaping your thinking for taking the business back in-house and sort of maybe positioning it more towards 2025, which I guess is always going to be the sort of inflexion year in offshore wind?

John Evans: Yeah, I think, two things to think about here. We are very clear and I think the world is very clear that offshore wind will be a major part of the energy supply position for the future. The question is the timing at which that comes together. And when we initially did the Seaway 7 OHT transaction, [we planned on] quite quickly being able to put that business onto the main Oslo Børs and to create a free float.

As we have seen in the last couple of years, the whole industry, be it ourselves, be it our peers in our sector or be it the turbine manufacturer, or even some of the developers, have seen that there are challenges in the growth of that industry. The explosive speed of that growth has also brought many challenges. But we believe in the long term that there is very much a role for companies like Seaway 7 and supported by Subsea7's appearance to really make its mark in that space.

So, for us it was about a timing question. We reflected on the fact that our view of creating a material free float, that our business was not going to happen in the next one or two years as far as we could see. So, bringing the business back inside Subsea7 was a good move. How the market was valuing the remaining stock we believe undervalues Seaway 7's earning capacity in the future. And so, for us, we decided to make the offers that we made to bring it back into the business and let it grow, as part of a fully owned Subsea7 business.

James Thompson: Okay, thanks so much. And just maybe finally for me, could you maybe give us an update in terms of your thoughts on timing of conversion of some of the pre-backlog stuff for Seaway 7? Obviously, coverage is relatively light but there's a lot of orders in hand, so it would be good to just get a feel for your expectations in this quarter or next quarter. Or just some guidance there about when we might see some conversion. Thanks.

John Evans: Yes, so, as I said in my prepared remarks, one of the challenges in renewables is it is also subject to a number of regulatory and governmental influences. I think it's fair to say that in the UK, the CFD round last year that generated the opportunities for these projects to go to sanction have seen some quite heavy squeezes, so the cost of money for our developers has gone up. We have some protection mechanisms [regarding the] cost of materials, and [we] pass cost increases through [to our clients].

So, our clients are going through those processes now, as to how they sanction those projects. We would expect to see some progress on those in the first half of this year.

James Thompson: Okay, great, thanks and thanks for providing the medium-term guidance as well on margin, that's helpful. I'll hand it over there. Cheers.

Operator: We are now going to proceed with our next question. And the question has come from the line of Haakon Amundsen from ABG, please ask a question.

Haakon Amundsen (ABG): Yes, thank you, good afternoon, guys. I have a question on the medium-term investments that you may conduct on. I was just wondering on the two segments, first of all, how will you address the possible tight market on the subsea and conventional side? Do you expect to potentially resolve that through leasing of vessels or available vessels in the market today, or would you ever consider kind of growth investments in subsea and conventional? That's my first question.

And on renewables, when you complete the current new build programme, do you expect to invest in new vessels in the medium term? Thank you.

John Evans: So, Haakon, thank you for the questions. We normally attach a fleet listing at the back of these earnings releases, and you will see that there are more leased vessels in our fleet compared to where we were last year. So, we have chartered Jones Act compliant vessels to make sure we have the capacity to support our activities in the Gulf of Mexico, as well as a lighter/medium construction vessel also coming into the fleet.

So, for ourselves, we continue to have the model that we've used for many years here, which is to own enabling assets and to charter then in the market the other additional tonnage that we need to bring. And that is the way I think we will see our oil and gas business continue to move over the next few years.

In renewables, we have a plan to finish off the Ventus and the Alfa Lift, and then we have a plan to make sure that that business returns money to its shareholders and shows to us that the commitment that we're making can turn into more returns for shareholders.

So, our view at the moment is that we have no near-term plans to – either on the oil and gas side, or the renewables side - to continue to invest in the medium term. We talked previously about our priorities to look at shareholder returns and making returns to our shareholders in the hope that the good years, they will come out in 2024, 2025 and 2026.

Haakon Amundson: Okay, thank you, that's very clear. That's it for me.

Operator: We are now going to proceed with our next question. And the question has come from the line of Nikhil Gupta from Citi, please ask your question.

Nikhil Guptan (Citi): Hi, my question is around the medium-term guidance on 15-20%. So, [question] one is, how should we expect that level to reach in 2024, 2025 or beyond that? And, secondly, does this include – is this like a combined guidance for – including offshore wind projects as well, or just subsea?

John Evans: The guidance is for the Group, and we would expect it to be towards the higher end of that guidance by 2025. But we are going up sequentially year-on-year and, as I said in my prepared remarks, we've got some better margin work coming in, some of the more recent work. But we've also got to liquidate a lot of work that we took a couple of years ago when margins were tighter.

Nikhil Guptan: Okay, thanks. And just a follow-up on the order intake, I mean, is it prudent to assume the 2023 to 2025 intake would remain around the 2022 levels, higher levels in the near term or –?

John Evans: I think it's important to remember that 2022 had the Norwegian effect, which we've been guiding the market for 18 months, which is that every project that put its PDO paperwork into the government by the 31st December had the benefit of a tax break. We won't be seeing [the same this year]. I do expect the rest of the market to respond reasonably well, but I think we need to recognise that there was quite a surge in Q4, which we certainly got our share of and we're very, very pleased to have got that share. But that will not repeat on an on-going basis. I think the Norwegian government have been very clear that it was a one-off initiative that they had made to support the industry, primarily through COVID. But that will not repeat.

Nikhil Gupta: Understood, thank you. I'll turn it over.

Operator: We are now going to proceed with our next question. The next question has come from the line of James Winchester from Bank of America, please ask your question.

James Winchester (Bank of America): Afternoon guys, just a quick two from me, if that's okay. On your 2023 EBITDA guidance, is there any change from your comments from last quarter relating to being happy with the $650 million ballpark? Or is anything incrementally better or worse from that?

And then, following on from that, could you just provide a kind of an EBITDA to free cash flow bridge for 2023? I was primarily interested in the working capital number, because you haven't had the build that you expected. Is that because better terms elsewhere, or it is pushed into 2023? And then sorry, just adding on that, can you provide some colour on the lease payments as well? Thank you.

Mark Foley: Hi James, this is Mark. In terms of your first question on the EBITDA guidance, we publish consensus on the website, as you know, and we are comfortable with consensus. If we weren't, we'd be obliged to come to market and say so.

In terms of EBITDA to free cash flow, John and I have been consistent now over several quarters talking around cash consumption activities that we have in 2023. Two of those impact on free cash flow. The first is [the deferral of the] the working capital build [from] 2022 into 2023. And, similarly, the investment in the business, notably on the Seaway Alfa Lift and the Seaway Ventus. So, those will weigh heavily on the free cash flow in this year. So, hopefully that answers your question.

James Winchester: And just on the lease payments, are we going to see an uptick there or should we kind of keep it constant? Thank you.

Mark Foley: These things don't form part of free cash flow, as you know, James. But the lease payments will be slightly higher than those experienced in 2022.

James Winchester: Brilliant, thank you very much.

Operator: We are now going to proceed with our next question. And the question has come from the line of Christopher Møllerløkken from SpareBank1 Markets, please ask your question.

Christopher Møllerløkken (SpareBank1 Markets): Yes, good afternoon, gentlemen. In terms of the contract terms you are experiencing, they were quite well [inaudible] pricing and margins have improved, but can you give more flavour on how other contract terms have developed in terms of payment schedules, risk-sharing, etc., with regards to you and your clients? Thank you.

Mark Foley: Hi Christopher, yes, look, the way that we talk about order intake in terms of quality is threefold. Firstly, we are seeing gradual improvements in pricing. However, as you note, it would be remiss not to overlook the risk allocation that we've been able to negotiate with our clients as a result of the market becoming tighter. So, clearly, that's often overlooked, and we can leverage the positioning of ourselves with respect to the clients in the market improves.

Recently, at the downturn of the market, we ceded certain payment terms, so we aim to have cash neutrality or cash positivity during the lifecycle of the project. And what we're seeing now, as the pendulum swings from the client back in favour of the contractor, we're able to improve the payment conditions; notably that is larger milestones [earlier] in the lifecycle of the project, which contributes to an overall cash profile which is superior to what we've seen in the recent past.

Christopher Møllerløkken: Thank you. In terms of the geographical exposure in Subsea7, of course, you're a global player but in my view, three key markets remain, Norway, UK and Brazil. With the Norway activity now being record high due to the tax incentives that were introduced during COVID; UK recently introducing a new tax on the E&P industry; Petrobras being hammered after the political elections in Brazil last year. Do you see that your clients are skewing more towards Norway and other geographies versus UK and Brazil?

John Evans: Well, first of all, I think we try in Subsea7 to have a reasonable balance of work. We do about half the work in the US, the Gulf of Mexico and in the Caribbean. So, we do about half in that market. We are strong in Brazil, we're very strong in Norway. So, we have a good spread. We are strong in Australia, Africa and when it was [inaudible], we are there as well. So, again for us, we are very comfortable with the spread and it's quite a deliberate spread of clients and geographies that we have to allow us to grow our business and adapt as the opportunities arise.

We then look at wind and that's primarily a German, Dutch, British, American business there.

And, in terms of each country, I think I've given my comments on Norway and Norway is a very important market, always has been for us. And I think we are very pleased with the share of our market that we picked up.

In terms of Brazil, whichever way the political changes occur, the oil and gas industry in Brazil is absolutely fundamental to that country's success. And the machine that is Petrobras keeps working and keeps moving and keeps adapting. It has its moments, but it continues directionally towards where it's at. And, as you can see on that list of vendors and projects, they are there, they have been bid and they are available to us to go and deliver.

The one market that I would say that is not responding well at the moment is the UK and the UK has had two hits. It has struggled with the windfall tax in oil and gas and also had a lot of issues with planning and grid connections in the wind sector. So, it is one of our markets where we are watching from a viewpoint that there are a number of things that need fixing in that market for it to come back to the strength that it was.

But we are comfortable that Turkey and Guyana and other new markets are very much backfilling that need. So, the UK teams are working on international projects for us. So, it's a change from where we've been and that's the only market that I would call out as being one where influences outside the general price of oil and the price of electricity are having an influence.

Christopher Mollerlokken: Thank you.

Operator: We are now going to take our next question. And that question comes from the line of Mark Wilson from Jefferies, please ask your question.

Mark Wilson (Jefferies): Thank you, good morning. The first question, just a follow on from previously, someone asked about the 15-20% EBITDA guidance and you said you expect to be at the higher end of that range by 2025. Could you just confirm, John, what the offshore wind margin expectations are within that now you're taking Seaway back in-house? Are we still looking at a 10% margin on $1 billion of sales?

John Evans: Mark, we gave that number as a Group number and that's how I'd like to leave it for today.

Mark Wilson: Okay. Very good. Then, the second question is, could you just help me out on the maths regarding one of your projects, big offshore wind one, the Dogger Bank [A&B]. You've done 17 foundations and started offshore works in July and stood down the Strashnov for winter in December. So, that's four or five months and you've done 17 foundations. If I extrapolate that forward, you can see where that project timeline looks. Could you explain what I'm missing on that simple maths there please?

John Evans: All our projects work on cost-on-cost percentage of completion, is how we account for all our projects. So, you take the total cost of the total project and then you work out how much cost you've incurred to date and then you work it back through. So, we've had all the project management, the engineering, the marshalling yards, the mobilisation of the vessel, the start of the work, etc. that goes with it, and all that has been put into the POC calculation and that's where we're at, at the moment, in terms of where we will be.

And generally then, the next phase of this project, the vast bulk of putting in the piles, we'll achieve up to something like 95% of the POC. So, that's how all our projects work. It's the way the account rules require us to measure our projects and so it's been through the auditors. But yes, and we'll be back out again in April and we'll continue a full season of work with the Strashnov this year and that's how we will liquidate A&B.

Mark Wilson: Thank you. I mean, it wasn't actually the accounting I was asking about, the 33%, it's actually the time, John, and just 17 foundations in since July and you're back out in April, so I just wondered how long that project is expected to take.

John Evans: We did it in two parts, we brought a third-party asset in for less than a month to do part of it and then we came in at the end of Hollandse Kust [Zuid] and did some work before the winter season closed down on us. So, that's how we achieved 17. So, when we get the full run of it, if you look at Hollandse Kust, we did over 100 monopiles with the Strashnov once we got bedded down and started. So, again we expect to see very similar performance coming through the season this year.

Mark Wilson: Okay, very good, thank you.

Operator: We are now going to proceed with our next question. And that question has come from the line of Daniel Thompson from BNP Paribas Exane, please ask your question.

Daniel Thomson (BNP Paribas Exane): Hi, good afternoon. Two from me please. Firstly, on the outlook you provided the 15-20% EBITDA, I was just wondering, are you assuming that leading edge pricing stays roughly where it is today, or do you factor in some level of pricing improvements into that outlook?

And then, secondly, given how many more opportunities to tender in your oil and gas market today, should we expect any change in the mix of work you're targeting between SURF and conventional, or is that more just a function based on your vessel capabilities in these markets? Thanks.

John Evans: Yes, Daniel, the way we talk about our business is incrementally, project by project. As capacity gets taken out of the market, whether it is ours or our competitors, allows us to price the next portion of work generally better per season, per individual year that we work in those key markets. So, for us it's an incremental change, it's not a huge step change that we see. And it is very much done on where do we think the pricing can absorb in each market. So, we still will continue to seek improvements but also, we have some very, very smart buyers here that will keep the oil in the ground if they think the pricing gets too high and the economics doesn't work for them. So we've seen one or two projects go through that "recycling", as our clients call [it], where they take [the project] back in again to see whether they've found the right way to develop that particular field or the timing at which they do that.

In terms of the opportunities for the mix of work, I guess, the one area that I would call out is the conventional work in the Middle East was very, very quiet during COVID. COVID had a distinct impact on spending with Saudi Aramco, spending in Qatar. We have certainly seen the messaging back from the key Middle East clients that they are back to spending. I referred in my prepared remarks to the long-term agreement, we have a LTA agreement with Saudi Aramco, and currently we are bidding a number of what we call call-off agreements to do with that.

So, I can see that our conventional work will pick back up again and bring profitability back in. And, for us, the key aim is to work our key SURF assets in certain geographies and maximise the number of days they are working and minimise the number of days they're transiting. That's our objectives in the two different markets.

And, as I said to an earlier question, we have brought in four chartered assets into the fleet to again free up our enabling assets to do exactly what they are designed to be, which are enablers at the very top end. Which again, allows us to bring more capacity into the industry for us as well.

Daniel Thompson: Okay, thank you.

Operator: We have no further questions at this time. I would now like to hand the conference back to John for closing remarks. Thank you.

John Evans: Well, thank you very much for joining us here today. We know it's a very busy day with a lot of other companies reporting. And we look forward to talking to you soon when our Q1 results come in, in a few weeks' time. All the best, thank you, bye.

Mark Foley: Goodbye.

Operator: This concludes today's conference call. Thank you for participating, you may now disconnect your line. Thank you.

[END OF TRANSCRIPT]