Financial Review

Financial Review

Management Report for Subsea7 Group (the Group)
Financial highlights

At a glance
- At least $1 billion of shareholder returns over four years through a combination of dividends and share repurchases
- Adjusted EBITDA of $714 million, up 28% year-on-year, equating to a margin of 12%
- Order intake of $7.4 billion resulted in a book-to-bill of 1.2 times and continued backlog growth to $10.6 billion
- Full year 2024 guidance: Adjusted EBITDA expected to be within a range from $950 million to $1.0 billion

In $ millions, except Adjusted EBITDA margin and per share data	**2023 31 Dec**	2022 31 Dec
Revenue	**5,974**	5,136
Adjusted EBITDA[(a)]	**714**	559
Adjusted EBITDA margin[(a)]	**12%**	11%
Net operating income	**105**	149
Net income	**10**	36
Earnings per share – in $ per share		
Basic	**0.05**	0.20
Diluted[(b)]	**0.05**	0.19

At (in $ millions)	**2023 31 Dec**	2022 31 Dec
Backlog[(a)]	**10,587**	9,008
Book-to-bill ratio[(a)]	**1.2x**	1.4x
Cash and cash equivalents	**751**	646
Borrowings	**(845)**	(356)
Net (debt)/cash excluding lease liabilities[(a)]	**(94)**	290
Net (debt)/cash including lease liabilities[(a)]	**(552)**	33

(a) For explanations and reconciliations of Adjusted EBITDA, Adjusted EBITDA margin, Backlog, Book-to-bill ratio and Net (debt)/cash refer to the 'Alternative Performance Measures' section on page 148.
(b) For the explanation and a reconciliation of diluted earnings per share refer to Note 11 'Earnings per share' to the Consolidated Financial Statements.

2023 Summary
The Group delivered solid results as the upcycles in the subsea and offshore wind industries gathered pace. Revenue and Adjusted EBITDA in the Subsea and Conventional business unit increased significantly driven by the shift in mix towards projects awarded in a more favourable commercial environment. Revenue in the Renewables business unit reduced year-on-year due to the phasing of a major project in the UK, however improved contractual risk allocation and a further, stronger focus on project execution resulted in the business delivering a double-digit Adjusted EBITDA margin.

The Group recorded order intake of over $7 billion, which equated to a book-to-bill of 1.2 times. Order intake was the highest since 2013, resulting in a backlog of over $10 billion at year end.

In 2023, revenue was $6 billion, net operating income was $105 million and Adjusted EBITDA was $714 million, driven by higher revenues and margin expansion within the Subsea and Conventional business unit, and an improvement in margins to a double-digit level in the Renewables business unit. After taxation of $70 million, equating to an effective tax rate of 88%, net income was $10 million in 2023.

Net cash generated from operating activities was $660 million and free cash flow was $79 million after capital expenditure of $581 million, mainly related to the newbuild Renewables vessels. At 31 December 2023, the Group held cash and cash equivalents of $751 million and net debt including lease liabilities was $552 million. At year end the Group had liquidity of around $1.6 billion with approximately $860 million of undrawn borrowing facilities.

In October, the Group acquired a 10% share in OneSubsea, one of the world's leading subsea technology and solutions providers, for a consideration of $307 million with 50% due to be settled in 2024. OneSubsea and Subsea7 are partners in Subsea Integration Alliance, which executes fully integrated subsea projects.

During the year the Company paid dividends of $112 million, equivalent to NOK 4.00 per share.

Net impairment charges recognised were $71 million, mainly relating to i) *Seaway Alfa Lift* monopile installation equipment, owing to a contractual dispute in relation to which Subsea7 intends to use all legal resources available to reach a satisfactory outcome, and ii) loss on vessels prior to disposal. These were partly offset by impairment reversals of $26 million.

Commitment to shareholder returns
Reflecting its confidence in the outlook and the expected financial performance of Subsea7, the Board of Directors proposes that the Company returns at least $1 billion to shareholders over four years, from 2024 to 2027. At the Annual General Meeting on 2 May 2024, the Board of Directors will propose that shareholders approve a cash dividend of NOK 6.00 per share, equating to approximately $170 million, payable in two equal instalments in May and November 2024. The Company's dividend policy will be revised to reflect an increase in the regular dividend to NOK 6.00 from NOK 1.00 per share to be paid in two equal instalments.

The Company has also committed to repurchase approximately $80 million of its own shares in 2024, resulting in shareholder returns of approximately $250 million.

Outlook

Management anticipates that revenue in 2024 will be between $6.0 billion and $6.5 billion, while Adjusted EBITDA is expected to be within a range from $950 million to $1.0 billion. Management's expectation for capital expenditure in 2024 is $300-320 million. As the mix of activity continues to shift to projects won in a favourable environment, the Adjusted EBITDA margin is expected to be within an 18-20% range in full year 2025.

Longer term, management continue to see a positive outlook for demand for the Subsea and Conventional business, supported by a tender pipeline of $21 billion. As a source of reliable energy, the hydrocarbon industry is likely to remain a key contributor to global production under plausible ranges of energy transition scenarios. Management is confident that a focus on the deepwater subsea market, with attractive economics, will enable the Group to maximise the return on the significant historical investments made in the Group's modern subsea fleet.

In Renewables, project delays and cancellations in 2023 put many countries' clean energy ambitions under pressure and prompted a swift response in countries such as the UK and US, with positive indications for the Group's tender pipeline in 2024. While the growth trajectory for the offshore wind market may not be smooth it is certainly clear that long-term demand is set to significantly exceed the current fleet capacity of the industry. With a strong focus on achieving an equitable risk-return balance, management believes the Group's offshore wind business will deliver sustainable value creation for shareholders.

Income statement

Revenue

Revenue for the year ended 31 December 2023 was $6.0 billion, an increase of $838 million or 16% compared to the prior year. The increase was due to significantly increased activity in the Subsea and Conventional business unit which reflected increased demand for the Group's services in the offshore oil and gas sector, partly offset by lower revenue in the Renewables business unit due to the phasing of a large fixed-price project in the UK.

Adjusted EBITDA

Adjusted EBITDA was $714 million resulting in an Adjusted EBITDA margin of 12%, an increase of $155 million or 28% compared to the year ended 31 December 2022. The increase was driven by higher Adjusted EBITDA in both the Subsea and Conventional business unit, with the execution of projects awarded at improved margins, and double-digit Adjusted EBITDA margin in the Renewables business unit where the prior year was adversely impacted by additional costs incurred on certain projects.

Net operating income

Net operating income was $105 million for the year ended 31 December 2023 compared to $149 million in 2022.

Net operating income was driven by:

- net operating income of $196 million in the Subsea and Conventional business unit, compared to $229 million in the prior year, which benefitted from a $54 million non-cash net impairment reversal

partly offset by:

- net operating loss of $74 million in the Renewables business unit, which included a non-cash impairment charge of $73 million mainly related to *Seaway Alfa Lift's* monopile installation equipment, owing to a contractual dispute, and a non-core vessel which was disposed in early 2024, compared to net operating loss of $85 million in 2022, with the prior year being impacted by costs incurred on certain projects; and
- net operating loss of $18 million in the Corporate business unit compared to net operating income of $5 million in the prior year.

Net income

Net income was $10 million for the year ended 31 December 2023, compared to net income of $36 million in 2022.

The movement was primarily due to:

- an decrease of $44 million in net operating income;
- finance costs of $71 million in 2023 compared to $23 million in the prior year. The year-on-year increase was driven by expected higher borrowings and higher interest rates in 2023 compared to 2022

partly offset by:

- finance income of $25 million compared to finance income of $9 million in the prior year driven by higher interest rates; and
- a net gain of $20 million driven by foreign exchange gains, within other gains and losses, compared to a net loss of $7 million in the prior year.

Taxation was $70 million, representing an effective tax rate of 88%, compared to $100 million in 2022, equivalent to an effective tax rate of 73%.

Earnings per share

Diluted earnings per share was $0.05 compared to $0.19 in 2022, calculated using a weighted average number of shares of 299 and 293 million, respectively.

Business unit highlights
For the year ended 31 December 2023

(in $ millions)	Subsea and Conventional	Renewables	Corporate	Total
Revenue				
Fixed-price contracts	**4,171.1**	**951.6**	**16.7**	**5,139.4**
Day-rate contracts	**748.0**	**3.5**	**82.8**	**834.3**
	4,919.1	**955.1**	**99.5**	**5,973.7**
Net operating income/(loss)	**196.2**	**(73.9)**	**(17.6)**	**104.7**
Finance income				**25.2**
Other gains and losses				**21.3**
Finance costs				**(71.2)**
Income before taxes				**80.0**
Adjusted EBITDA[(a)]	***612.4***	***102.5***	***(0.5)***	***714.4***
Adjusted EBITDA margin[(a)]	***12.4%***	***10.7%***	***(0.5%)***	***12.0%***

(a) Adjusted EBITDA and Adjusted EBITDA margin are non-IFRS measures. For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to the 'Alternative Performance Measures' section on page 148.

For the year ended 31 December 2022

(in $ millions)	Subsea and Conventional	Renewables	Corporate	Total
Revenue				
Fixed-price contracts	3,210.3	1,093.0	38.7	4,342.0
Day-rate contracts	693.0	23.9	76.9	793.8
	3,903.3	1,116.9	115.6	5,135.8
Net operating income/(loss)	229.2	(85.3)	4.9	148.8
Finance income				9.0
Other gains and losses				1.9
Finance costs				(23.4)
Income before taxes				136.3
Adjusted EBITDA[(a)]	*531.6*	*4.8*	*23.0*	*559.4*
Adjusted EBITDA margin[(a)]	*13.6%*	*0.4%*	*19.9%*	*10.9%*

(a) Adjusted EBITDA and Adjusted EBITDA margin are non-IFRS measures. For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to the 'Alternative Performance Measures' section on page 148.

Subsea and Conventional
Revenue in the year ended 31 December 2023 was $4.9 billion, an increase of $1.0 billion or 26% compared to the prior year. The year-on-year increase reflected a strong demand for the Group's services within the offshore oil and gas sector with high activity levels in Brazil in particular.

During the year Sakarya Phase 1 (Türkiye) was substantially completed. Work progressed on Sangomar (Senegal); Sanha Lean Gas and CLOV 3 (Angola); Marjan 2 (Saudi Arabia); and Skarv Satellites and Yggdrasil (Norway).

In Brazil, there were high levels of utilisation of the PLSVs and work progressed on Bacalhau, Mero 3&4 and Búzios 8. Net operating income was $196 million compared to $229 million in the prior year which benefitted from a $54 million non-cash net impairment reversal.

Renewables
Revenue was $955 million compared to $1.1 billion in the prior year. During the year, Hollandse Kust Zuid and Seagreen, in the Netherlands and UK respectively, were completed. Work progressed on Dogger Bank A&B (UK).

Net operating loss was $74 million compared to net operating loss of $85 million in the prior year, which reflected costs incurred on certain projects. In 2023, non-cash impairment charges of $73 million were recognised mainly related to *Seaway Alfa Lift's* monopile installation equipment, owing to a contractual dispute, and a non-core vessel which was disposed in early 2024.

Corporate
Revenue, which was mainly driven by the Group's autonomous wholly-owned subsidiaries Xodus and 4Subsea and the Group's floating wind activities, was $100 million, a decrease of $16 million compared to the prior year.

Net operating loss was $18 million compared to net operating income of $5 million in the prior year.

Vessel utilisation and fleet
Vessel utilisation in 2023 was 77% compared with 78% in 2022.

At 31 December 2023 there were 38 vessels in the Group's fleet, including ten chartered vessels, with 37 active vessels and one vessel under construction.

Backlog

At 31 December 2023 backlog was $10.6 billion compared to $9.0 billion at 31 December 2022. Order intake was $7.4 billion representing a book-to-bill ratio of 1.2 times. Order intake included new awards of $4.8 billion, escalations of $2.6 billion and a favourable foreign exchange impact of approximately $100 million.

$8.6 billion of the backlog at 31 December 2023 related to the Subsea and Conventional business unit (which included $0.3 billion related to long-term day-rate contracts for PLSVs in Brazil) and $2.0 billion related to the Renewables business unit. $5.7 billion of the backlog is expected to be executed in 2024, $3.8 billion in 2025 and $1.1 billion in 2026 and thereafter. Backlog related to associates and joint ventures is excluded from these amounts.

Cash flow

Cash flow statement

Cash and cash equivalents were $751 million at 31 December 2023, an increase of $105 million in the year. The increase was mainly attributable to:

- net cash generated from operating activities of $660 million, which included a favourable movement in net working capital of $4 million; and
- net cash generated from financing activities of $151 million, which included:
  - $300 million drawn under the 2021 UK Export Finance facility and $292 million drawn under the 2023 UK Export Finance facility, partly offset by;
  - scheduled repayments of borrowings of $100 million, related to the 2021 UK Export Finance facility and South Korean Export Credit Agency (ECA) facility;
  - payments related to lease liabilities of $165 million; and
  - dividends paid to shareholders of $112 million

partly offset by:

- net cash used in investing activities of $710 million, which included the first instalment of the Group's 10% investment in OneSubsea of $153 million and purchases of property, plant and equipment and intangible assets of $581 million, mainly related to the newbuild vessels *Seaway Alfa Lift* and *Seaway Ventus.*

Free cash flow

During the year, the Group generated free cash flow of $79 million (2022: $255 million) which is defined as cash generated from operating activities of $660 million (2022: $486 million) less purchases of property, plant and equipment and intangible assets of $581 million (2022: $231 million).

Balance sheet

Non-current assets

At 31 December 2023, non-current assets were $5.2 billion (31 December 2022: $4.5 billion). The movement of $708 million was largely driven by an increase in interests in associates and joint ventures of $317 million, mainly related to the Group's acquisition of a 10% ownership interest in OneSubsea, an increase in right-of-use assets of $177 million, mainly related to four long-term vessel leases with associated options, and an increase in property, plant and equipment of $148 million.

Non-current liabilities

At 31 December 2023, total non-current liabilities were $1.1 billion (31 December 2022: $609 million). The increase of $513 million was largely driven by:

- drawdowns of $300 million under the 2021 UK Export Finance facility and $292 million under the 2023 UK Export Finance facility, of which $532 million was recognised as non-current liabilities;
- increase of $129 million in lease liabilities

partly offset by:

- $110 million reclassified to current borrowings in line with repayment schedules.

Net current assets

At 31 December 2023, current assets were $2.9 billion (31 December 2022: $2.4 billion) and current liabilities were $2.6 billion (31 December 2022: $1.9 billion), resulting in net current assets of $249 million (31 December 2022: $537 million). The decrease of $288 million in the year was largely driven by:

- increase in trade and other liabilities of $414 million;
- increase in borrowings of $70 million mainly driven by the drawdown of $300 million under the 2021 UK Export Finance facility, of which $60 million was recognised as current liabilities;
- increase in construction contracts liabilities of $105 million; and
- decrease in construction contracts assets of $116 million

partly offset by:

- increase in trade and other receivables of $336 million; and
- increase in cash and cash equivalents of $105 million.

Equity

At 31 December 2023, total equity was $4.4 billion (31 December 2022: $4.5 billion). The decrease of $94 million in the year was driven by dividends paid of $112 million partly offset by net foreign currency translation gains of $22 million and net income of $10 million.

Borrowings, lease liabilities, net cash/(debt) and liquidity

Borrowings

At 31 December 2023, total borrowings were $845 million (31 December 2022: $356 million). The increase of $489 million was mainly driven by drawdowns of $300 million under the 2021 UK Export Finance facility and $292 million under the 2023 UK Export Finance facility. During the year, the Group borrowed and fully repaid $469 million from the multi-currency revolving credit and guarantee facility. The increase in the Group's total borrowings was partly offset by scheduled repayments.

A summary of the borrowing facilities available at 31 December 2023 is as follows:

(in $ millions)	**Total facility**	**Drawn[a]**	**Undrawn**	Maturity date
Multi-currency revolving credit and guarantee facility	700.0	–	700.0	June 2028[b]
2021 UK Export Finance (UKEF 2021) facility	425.0	(425.0)	–	February 2028
2023 UK Export Finance (UKEF 2023) facility	450.0	(292.4)	157.6	July 2030
South Korean Export Credit Agency (ECA) facility	135.2	(135.2)	–	January 2027[c]
Total	**1,710.2**	**(852.6)**	**857.6**	

(a) Borrowings presented in the Consolidated Balance Sheet are shown net of capitalised fees of $8.0 million, which are amortised over the period of the facility.
(b) The Group's multi-currency revolving credit and guarantee facility will mature in June 2028. The facility size will reduce from $700 million to $600 million in June 2027 until maturity in June 2028.
(c) 90% of the facility is provided by an Export Credit Agency (ECA) and 10% by commercial banks. The maturity of the ECA tranche is January 2029 and the maturity of the commercial tranche is January 2027.

Lease liabilities

At 31 December 2023, lease liabilities were $458 million, an increase of $201 million compared with 31 December 2022. The increase was mainly driven by leases, including options, related to vessels on long-term charters.

Net cash/(debt)

At 31 December 2023:

- net debt (excluding lease liabilities) was $94 million compared to net cash of $290 million at 31 December 2022; and
- net debt (including lease liabilities) was $552 million, compared to net cash of $33 million at 31 December 2022.

Gearing

At 31 December 2023, gross gearing (borrowings divided by total equity) was 19.4% (31 December 2022: 8.0%).

Liquidity

At 31 December 2023, the Group's liquidity, represented by cash and cash equivalents and undrawn borrowing facilities, was $1.6 billion (31 December 2022: $1.6 billion).

Cash management constraints

The Group operates within a liquidity risk management framework which governs its management of short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by ensuring that it has access to sufficient cash, banking and borrowing facilities. This is achieved by regularly monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities where appropriate.

Financial covenant compliance

The Group's committed borrowing facilities contain financial covenants relating to a maximum level of net debt (excluding lease liabilities) to Adjusted EBITDA. During the year, all financial covenants were met. The Group expects to be able to comply with all financial covenants during 2024.

Shareholder distributions

Share repurchase programme

During the year ended 31 December 2023, there were no shares repurchased under the Group's $200 million share repurchase programme authorised by the Board of Directors on 24 July 2019 (2022: 5.6 million shares for a total consideration of $46.0 million). On 19 April 2023, the Board of Directors authorised a 24-month extension to this programme, which will now expire on 18 April 2025. At 31 December 2023, the Group had cumulatively repurchased 10.0 million shares for a total consideration of $76.8 million under this programme.

During 2023, the Group cancelled 5.7 million shares in accordance with the authority granted to the Board on 14 April 2021.

At 31 December 2023, the Group directly held 3.8 million shares (31 December 2022: 9.8 million) as treasury shares, representing 1.26% (31 December 2022: 3.26%) of the total number of issued shares.

Dividends

A dividend of NOK 4.00 per share was approved by the shareholders of Subsea 7 S.A. at the Annual General Meeting on 18 April 2023 and recognised in shareholders' equity in April 2023. The dividend, equivalent to a total of $112 million, was paid on 28 April 2023 to shareholders of Subsea 7 S.A. at date of record of 21 April 2023.

Shareholders

The 20 largest shareholders of the Company, and their beneficial ownership[a] as a percentage of the total fully paid and issued common shares, at 31 December were:

At	2023 %	2022 %
Siem Industries S.A.	**23.3**	23.4
Folketrygdfondet	**8.1**	7.7
Elliott Management Corporation	**4.5**	–
BlackRock Institutional Trust Company, N.A.	**3.7**	4.0
Storebrand Kapitalforvaltning AS	**2.5**	2.3
DNB Asset Management AS	**2.5**	2.2
The Vanguard Group, Inc.	**2.2**	2.1
KLP Fondsforvaltning AS	**2.1**	1.9
Pareto Asset Management AS	**2.1**	1.8
Songa Capital AS	**1.9**	–
SAFE Investment Company Limited	**1.9**	1.9
Alfred Berg Kapitalforvaltning AS	**1.7**	1.3
ODIN Forvaltning AS	**1.6**	1.6
Robotti & Company Advisors, LLC	**1.2**	1.6
Artisan Partners Limited Partnership	**1.2**	1.3
Lupus alpha Asset Management AG	**1.1**	–
Key Group Holdings (Cayman), Ltd.	**1.1**	0.4
Capital Research Global Investors	**1.0**	1.5
Amundi Asset Management, SAS	**0.9**	0.6
Metzler Asset Management GmbH	**0.9**	0.5
Total	**65.5**	56.1

(a) The data is provided by NASDAQ, Inc and is obtained through an analysis of beneficial ownership and fund manager information. This is provided in response to disclosure of ownership notices issued to all custodians on the Subsea7 VPS share register. While every reasonable effort has been made to verify the data, there may be fluctuations as a result of such events as stock lending or other non-institutional stock movements, and neither Subsea7 nor NASDAQ, Inc can guarantee the accuracy of the analysis.

Going concern

The Consolidated Financial Statements have been prepared under the assumption of going concern. This assumption is based on the level of cash and cash equivalents at the year end, the Group’s forecast cash flows, the committed borrowing facilities in place, and the backlog position at 31 December 2023.

Risk management and internal control

The Group’s approach to risk management and internal control is detailed in the Risk Management and Governance sections on pages 28 to 70. Financial risk management is as described in Note 33 ‘Financial instruments’.

Events after the reporting period

Dividends and share repurchases

At the Annual General Meeting on 2 May 2024, the Board of Directors will propose that shareholders approve a cash dividend of NOK 6.00 per share, equating to approximately $170 million, payable in two equal instalments in May and November 2024. The Company has also committed to repurchase approximately $80 million of its own shares in 2024, resulting in shareholder returns of approximately $250 million.

Management Report for Subsea 7 S.A. (the Company)
Additional information specific to the Unconsolidated Financial Statements of Subsea 7 S.A.

Unconsolidated Financial Statements of Subsea 7 S.A.

The Unconsolidated Financial Statements of Subsea 7 S.A., the ultimate parent company of the Subsea 7 S.A. Group, are shown on pages 160 to 167. These were prepared in accordance with Luxembourg's legal and regulatory requirements and using the going concern basis of accounting.

The profit for the year ended 31 December 2023 was $361.0 million (2022: profit of $7.7 million). The profit was mainly driven by income derived from participating interests in affiliated undertakings of $400.0 million and the reversal of a value adjustment of $8.7 million, mainly related to investments in affiliated undertakings, partly offset by operating expenses of $52.7 million and interest costs of $7.0 million. It is proposed that the profit of $361.0 million for the year ended 31 December 2023 be allocated to profit and loss brought forward at 1 January 2024 resulting in a profit to be brought forward amounting to $459.4 million.

Own shares held

During 2023, the Company cancelled 5.7 million shares in accordance with the authority granted to the Board on 14 April 2021. At 31 December 2023, the Company directly held 3.8 million (2022: 9.8 million) own shares at a carrying amount of $31.1 million (2022: $75.0 million).

Distributable amounts

At 31 December 2023, the Company had distributable amounts, as defined by Luxembourg law, totalling $1,156.5 million (2022: $787.8 million). Distributable amounts include share premium account, profit and loss account brought forward and profit or loss for the year. The year-on-year increase was mainly due to income from participating interests related to affiliated undertakings of $400.0 million.

Risk management, internal control and corporate governance

The Company's approach to risk management, internal control and corporate governance is consistent with that applied to affiliates in the Subsea7 Group and is detailed in the Risk Management and Governance sections on pages 28 to 70. Financial risk management is described in Note 33 'Financial instruments'. Non-financial information required by regulation is provided on pages 1 to 70.

By order of the Board of Directors of Subsea 7 S.A.

Kristian Siem
Chairman

John Evans
Chief Executive Officer