FINANCIAL REVIEW

MANAGEMENT REPORT FOR SUBSEA 7 GROUP (THE GROUP)
Financial highlights

At a glance
- Revenue of $5.0 billion up 45% year-on-year
- Adjusted EBITDA of $521 million up 55% from 2020, equating to a margin of 10.4% up 70 basis points year-on-year
- Net income of $36 million compared to net loss of $1.1 billion in 2020
- Diluted earnings per share of $0.11 compared to diluted loss per share of $3.67 in 2020
- Cash and cash equivalents of $598 million and net debt (including lease liabilities) of $55 million at year end
- Liquidity of $1.4 billion with $956 million undrawn borrowing facilities at year end
- Backlog of $7.2 billion, the highest since 2015, with order intake of $6.1 billion equating to a book-to-bill of 1.2
- Formation of Seaway 7 ASA created a market leader in fixed offshore wind
- The Board has decided to adopt a regular dividend policy and has approved a $100 million return to shareholders in 2022, comprising a regular dividend of NOK 1.00 per share, to be recommended for shareholder approval at the AGM, and share repurchases of approximately $70 million
- Both the regular dividend policy and returns to shareholders mark the Board's confidence in the financial position and outlook for the Group

In $ millions, except Adjusted EBITDA margin and per share data	2021 Audited	2020 Audited
Revenue	**5,010**	3,466
Adjusted EBITDA[(a)]	**521**	337
Adjusted EBITDA margin[(a)]	**10.4%**	9.7%
Net operating income/(loss) excluding goodwill impairment charges	**72**	(428)
Goodwill impairment charges	**–**	(605)
Net operating income/(loss)	**72**	(1,034)
Net income/(loss)	**36**	(1,105)
Earnings per share – in $ per share		
Basic	**0.11**	(3.67)
Diluted[(b)]	**0.11**	(3.67)

At (in $ millions)	2021 31 Dec	2020 31 Dec
Backlog – unaudited[(c)]	**7,212**	6,214
Book-to-bill ratio – unaudited[(c)]	**1.2**	1.3
Cash and cash equivalents	**598**	512
Borrowings	**(422)**	(209)
Net cash excluding lease liabilities[(d)]	**176**	303
Net (debt)/cash including lease liabilities[(d)]	**(55)**	49

(a) For the explanation and reconciliation of Adjusted EBITDA and Adjusted EBITDA margin refer to 'Additional Information' on page 139.
(b) For the explanation and a reconciliation of diluted earnings per share refer to Note 11 'Earnings per share' to the Consolidated Financial Statements.
(c) Backlog is a non-IFRS measure. Book-to-bill ratio represents total order intake (excluding amounts related to business combinations) divided by revenue recognised in the year.
(d) Net cash/(debt) is a non-IFRS measure and is defined as cash and cash equivalents less borrowings.

Summary
The Group's financial performance in 2021 with revenue of $5.0 billion, net operating income of $72 million and Adjusted EBITDA of $521 million was supported by improving oil and gas prices and increased activities in the renewables fixed offshore wind market. The Covid-19 pandemic continued to have an adverse impact on the Group's results, particularly in the Renewables business unit which experienced delays on certain projects in Taiwan. During the year, a new challenge emerged as global supply chains tightened across many industries; the Group continued to successfully mitigate the majority of its exposure through a variety of mechanisms including back-to-back supplier contracts and index-linked pricing.

The Subsea and Conventional business unit experienced an increase in activities, associated with the early stages of a recovery in the oil and gas industry with revenue up 33% year-on-year and net operating income of $103 million compared to net operating loss of $246 million in 2020, which was primarily driven by $294 million of impairment charges related to vessels. There was a sharp upturn in tendering activity and greater demand for the Group's engineering services.

The Group's Renewables business unit continued to make progress and successfully combined with OHT ASA during the fourth quarter to create Seaway 7 ASA, a market leader in fixed offshore wind. Revenue in the Renewables business unit doubled year-on-year to $1.3 billion however net operating loss of $60 million reflected challenges in Taiwan related to Covid-19 restrictions.

Net cash generated from operations in 2021 was $293 million and free cash flow was $127 million after capital expenditure of $167 million. At 31 December 2021, the Group held cash and cash equivalents of $598 million and had liquidity of $1.4 billion with $956 million undrawn borrowing facilities at year end.

The Group's strategy in emerging energies was reinforced in 2021 through a step up in the Group's participation in floating wind, with the creation of the Salamander floating wind joint venture and the acquisition of a majority holding in Nautilus Floating Solutions. The Group also succeeded in winning its first carbon capture contract, for the Northern Lights project in Norway.

Outlook
In 2022, revenue is expected to be broadly in line with 2021 and Adjusted EBITDA and net operating income will be in line with or better than 2021. Management firmly believes that the market recovery is underway, supported by high levels of tendering in both business units, and with signs of improving pricing and payment terms for new awards. Management is confident that the Group's strong pipeline of prospects will translate into new orders during the coming year.

INCOME STATEMENT

Revenue
Revenue for the full year was $5.0 billion, an increase of $1.5 billion or 45% compared to 2020. This was driven by increased revenue in both the Renewables business unit, with increased activity on the Seagreen offshore wind project, UK, and the Subsea and Conventional business unit, with increased activity in West Africa, the Gulf of Mexico, the Middle East, Brazil, Turkey and Australia.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the year were $521 million and 10.4% respectively, compared to Adjusted EBITDA of $337 million and Adjusted EBITDA margin of 9.7% in 2020.

Net operating income
Net operating income for the year was $72 million, compared to net operating loss of $428 million in 2020, excluding goodwill impairment charges.

The year-on-year improvement in net operating income was driven by:

- net operating income of $103 million in the Subsea and Conventional business unit, compared to net operating loss of $246 million in 2020 which included impairment charges related to property, plant and equipment and right-of-use assets of $294 million;
- a credit of $37 million in 2021 related to the Group's resizing programme compared to a charge of $86 million in 2020. The credit in 2021 resulted from downward revisions to restructuring cost estimates and the collection of aged receivables which had been credit impaired in the prior year;
- net costs of $27 million related to the Covid-19 pandemic compared to net costs of $70 million in 2020

partly offset by:

- net operating loss of $60 million in the Renewables business unit, which reflected continued delays to projects in Taiwan, compared to net operating loss of $40 million in 2020.

Net income
Net income was $36 million in 2021, compared to net loss of $1.1 billion in 2020.

The year-on-year improvement was primarily due to:

- increase in net operating income, of $500 million, excluding goodwill impairment charges;
- no goodwill impairment charges recognised in 2021 compared with charges of $605 million in 2020;
- net gain of $44 million in 2021 within other gains and losses, which included net foreign currency gains of $36 million, compared to net loss of $18 million in 2020, which included net foreign currency losses of $35 million

partly offset by:

- an increase of $31 million in taxation compared to 2020, mainly driven by the increase in income before tax combined with irrecoverable withholding taxes in certain jurisdictions. The effective tax rate for the year was 64%.

Earnings per share
Diluted earnings per share was $0.11 in 2021 compared to diluted loss per share of $3.67 in 2020, calculated using a weighted average number of shares of 299 million and 298 million respectively.

BUSINESS UNIT HIGHLIGHTS
For the year ended 31 December 2021

(in $ millions)	Subsea and Conventional	Renewables	Corporate	Total
Revenue				
Fixed-price projects	**3,015.2**	**1,259.3**	**9.5**	**4,284.0**
Day-rate projects	**659.4**	**0.2**	**66.4**	**726.0**
	3,674.6	**1,259.5**	**75.9**	**5,010.0**
Net operating income/(loss)	**102.7**	**(59.5)**	**28.5**	**71.7**
Finance income				**4.7**
Other gains and losses				**44.4**
Finance costs				**(20.1)**
Income before taxes				**100.7**
Adjusted EBITDA[a]	***468.0***	***3.8***	***49.1***	***520.9***
Adjusted EBITDA margin[a]	***12.7%***	***0.3%***	***64.7%***	***10.4%***

(a) Adjusted EBITDA and Adjusted EBITDA margin are non-IFRS measures. For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to 'Additional Information' on page 139.

For the year ended 31 December 2020

(in $ millions)	Subsea and Conventional Re-presented[b]	Renewables Re-presented[b]	Corporate Re-presented[b]	Total Re-presented[b]
Revenue				
Fixed-price projects	2,122.6	630.3	8.3	2,761.2
Day-rate projects	643.2	1.1	60.9	705.2
	2,765.8	631.4	69.2	3,466.4
Net operating loss excluding goodwill impairment charges	(245.8)	(39.7)	(142.9)	(428.4)
Impairment of goodwill	(592.2)	–	(13.2)	(605.4)
Net operating loss	(838.0)	(39.7)	(156.1)	(1,033.8)
Finance income				4.8
Other gains and losses				(18.3)
Finance costs				(24.6)
Loss before taxes				(1,071.9)
Adjusted EBITDA[a]	*427.0*	*11.6*	*(101.5)*	*337.1*
Adjusted EBITDA margin[a]	*15.4%*	*1.8%*	*n/a*	*9.7%*

(a) Adjusted EBITDA and Adjusted EBITDA margin are non-IFRS measures. For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to Additional Information' on page 139.
(b) Re-presented due to new organisational structure implemented from 1 January 2021.

Subsea and Conventional
Revenue for the year was $3.7 billion, an increase of $909 million or 33% compared to 2020.

During the year the Julimar project, Australia, the Lingshui project, China, the Ærfugl Phase 2 project, Norway, the Zinia project, Angola, and the Ichalkil project, in the Gulf of Mexico, were completed.

Work progressed on the Sangomar project, Senegal, the SLGC project, Angola, the Berri-Zuluf and 28 Jackets projects, Saudi Arabia, the Barossa project, Australia, the Sakarya project, Turkey, the Mad Dog 2, King's Quay and Colibri projects in the Gulf of Mexico, and the Johan Sverdrup Phase 2 project, Norway.

In Brazil, there were high levels of utilisation of the four PLSVs under long-term contracts with Petrobras and work progressed on the Bacalhau project.

Net operating income was $103 million in 2021 compared to net operating loss of $246 million in 2020 excluding goodwill impairment charges. The net operating loss in 2020 was primarily driven by impairment charges of $294 million related to vessels, equipment, and right-of-use assets.

Renewables
Revenue for the year was $1.3 billion compared to $631 million in 2020. The increase in revenue was due to increased activity, particularly in relation to the Seagreen offshore wind farm project, UK. Net operating loss for the year was $60 million compared to net operating loss of $40 million in 2020. The net operating loss in 2021 reflected delays to projects in Taiwan. An agreement was reached with the client on the Formosa 2 project, which defined the Group's remaining scope, revised schedule and remuneration. Barring any further impact of Covid-19, it is expected that the project will be substantially completed by mid-2022.

Corporate

Revenue, which was driven by the Group's autonomous wholly owned subsidiaries Xodus and 4Subsea and activities related to floating wind, was $76 million in 2021 compared to $69 million in 2020. Net operating income for the year was $29 million compared to net operating loss of $143 million in 2020, excluding goodwill impairment charges. The net operating income in 2021 benefitted from a credit of $37 million related to the Group's resizing programme following downward revisions of restructuring cost estimates. The net operating loss in 2020 was primarily driven by restructuring charges of $86 million and impairment charges of $29 million related to property, plant and equipment.

Vessel utilisation and fleet

Active Vessel Utilisation, which excludes stacked vessels, for 2021 was 83% compared with 77% for 2020. Total Vessel Utilisation was 77% compared to 69% in 2020.

At 31 December 2021 there were 38 vessels in the Group's fleet, comprising 34 active vessels, two vessels under construction and two stacked vessels. The business combination with OHT ASA in the fourth quarter resulted in the addition of five heavy transport vessels to the active fleet and two vessels under construction.

CASH FLOW

Cash flow statement

Cash and cash equivalents were $598 million at 31 December 2021, an increase of $86 million in the year. The movement in cash and cash equivalents during the year was mainly attributable to:

- net cash generated from operating activities of $293 million, which included adverse movements of $202 million in net operating assets and liabilities driven by:
  - an increase in operating receivables of $417 million; partly offset by:
  - an increase in operating liabilities of $224 million
- net cash used in investing activities of $184 million, which included purchases of property, plant and equipment and intangible assets of $167 million; and
- net cash used in financing activities of $23 million, which included:
  - payments related to lease liabilities of $93 million, dividends paid of $72 million, repayment of borrowings of $25 million and share repurchases of $21 million; partly offset by:
  - proceeds of borrowings of $200 million.

Free cash flow

The Group generated free cash flows of $127 million (2020: $264 million) which is defined as cash generated from operations of $293 million (2020: $447 million) less purchases of property, plant and equipment and intangible assets of $167 million (2020: $183 million).

BALANCE SHEET

Non-current assets

At 31 December 2021 total non-current assets were $4.7 billion (2020: $4.5 billion). The year-on-year increase of $199 million was driven by:

- increase in goodwill of $76 million, including $70 million recognised in relation to the business combination of the Group's Renewables business unit with OHT ASA. The calculation of goodwill related to OHT ASA included a downward fair value adjustment of $32 million applied to the acquired net assets of OHT ASA resulting from an onerous fixed-price contract provision existing at the date of the business combination; and
- net increase in property, plant and equipment of $98 million, including: $292 million recognised in relation to the business combination with OHT ASA; additions of $158 million; partly offset by depreciation charges of $341 million and impairment charges of $4 million.

Non-current liabilities

At 31 December 2021, total non-current liabilities were $638 million (2020: $491 million). The year-on year increase of $147 million was mainly driven by an increase in non-current borrowings of $176 million due to proceeds from borrowings of $200 million under the Group's UK Export Finance facility partly offset by scheduled repayment of borrowings of $25 million. In addition non-current lease liabilities reduced by $26 million as the Group reduced its commitment to vessels under long-term charters.

Net current assets

At 31 December 2021, total current assets were $2.3 billion (2020: $1.8 billion) and total current liabilities were $1.9 billion (2020: $1.6 billion), resulting in net current assets of $467 million (2020: $284 million). The increase of $182 million in the year was driven by:

- increase in trade and other receivables of $65 million and an increase in construction contract assets of $318 million, reflecting a significant increase in operating activities and revenue in Q4 2021 compared to Q4 2020;
- increase in cash and cash equivalents of $86 million

partly offset by:

- increase in trade payables and other liabilities of $371 million reflecting a significant increase in operating activities in Q4 2021 compared to Q4 2020.

Equity

At 31 December 2021 total equity was $4.5 billion (2020: $4.3 billion). The increase of $234 million during the year reflects:

- net income of $36 million;
- recognition of non-controlling interests of $277 million related to the business combination with OHT ASA

partly offset by:

- special dividends declared of $70 million; and
- share repurchases of $21 million.

BORROWINGS, LEASE LIABILITIES, NET CASH/(DEBT) AND LIQUIDITY

Borrowings

At 31 December 2021, total borrowings were $422 million (2020: $209 million). The increase in borrowings of $213 million during the year was driven by: proceeds from borrowings of $200 million under the Group's UK Export Finance facility; recognition of a $37 million revolving credit facility at the date of the business combination with OHT ASA; partly offset by scheduled repayments of $25 million related to the Group's South Korean Export Credit Agency facility.

A summary of the borrowing facilities available to the Group at 31 December 2021 is as follows:

(in $ millions)	Total facility	Drawn	Undrawn	Maturity date
Seaway 7 ASA Revolving Credit Facility[a]	37.0	(37.0)	–	January 2022
The multi-currency revolving credit and guarantee facility	656.0	–	656.0	September 2023
UK Export Finance (UKEF) facility	500.0	(200.0)	300.0	December 2026
South Korean Export Credit Agency (ECA) facility	184.9	(184.9)	–	July 2027
Total	**1,377.9**	**(421.9)**	**956.0**	

(a) The Group recognised the Seaway 7 ASA Revolving Credit Facility on 1 October 2021 following the business combination with OHT ASA; the facility was repaid in full in January 2022.

Lease liabilities

At 31 December 2021, lease liabilities were $231 million, a decrease of $23 million compared with 31 December 2020.

Net cash/(debt)

At 31 December 2021:

- net cash (excluding lease liabilities) was $176 million compared to net cash of $303 million at 31 December 2020; and
- net debt (including lease liabilities) was $55 million, compared to net cash of $49 million at 31 December 2020.

Gearing

At 31 December 2021, gross gearing (borrowings divided by total equity) was 9.4% (2020: 4.9%).

Liquidity

At 31 December 2021, the Group's liquidity, represented by cash and cash equivalents and undrawn borrowing facilities, was $1.6 billion (2020: $1.1 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 EBITDA. During the year, all financial covenants were met. The Group expects to be able to comply with all financial covenants during 2022.

Shareholder distributions

Share repurchase programme

During 2021, 2,724,172 shares were repurchased under the Group's share repurchase programme authorised on 24 July 2019, extended on 15 April 2021. At 31 December 2021, the Group had cumulatively repurchased 2,724,172 shares for a total consideration of $21.0 million under this programme. At 31 December 2021, the Group directly held 4,534,107 shares (2020: 2,326,683) as treasury shares, representing 1.51% (2020: 0.77%) of the total number of issued shares.

Special dividends

During the year ended 31 December 2021, special dividends totalling $70 million were declared (2020: $nil) and $72 million was paid to shareholders of the parent company (2020: $nil). The special dividend was paid in Norwegian Krone and the difference between the amount declared and the amount paid related to foreign exchange rate fluctuations between the date of declaration and payment.

SHAREHOLDERS

The 20 largest shareholders of the Group at 31 December 2021 (with their respective shareholdings at 31 December 2020) and their beneficial ownership[(a)] as a percentage of the total fully paid and issued common shares of the Company were:

As at	**2021 31 Dec %**	2020 31 Dec %
Siem Industries S.A.	**23.2**	24.3
Folketrygdfondet	**7.9**	9.5
BlackRock Institutional Trust Company, N.A.	**4.0**	3.7
Fidelity Management & Research Company LLC	**3.2**	3.1
DNB Asset Management AS	**2.6**	2.6
Trinity Street Asset Management LLP	**2.6**	3.1
Storebrand Kapitalforvaltning AS	**2.2**	2.2
The Vanguard Group, Inc.	**2.1**	2.0
Pareto Asset Management AS	**1.9**	1.7
SAFE Investment Company Limited	**1.9**	1.9
Robotti & Company Advisors, LLC	**1.8**	1.9
ODIN Forvaltning AS	**1.7**	1.2
KLP Forsikring	**1.7**	1.7
Nordea Funds Oy	**1.7**	1.7
Mandarine Gestion	**1.2**	0.8
SEB Investment Management AB	**1.0**	0.3
Schroder Investment Management AB	**0.9**	0.5
Third Avenue Management LLC	**0.9**	0.6
BlackRock Investment Management (UK) Ltd.	**0.9**	0.9
Holberg Fondsforvaltning AS	**0.9**	0.5

(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 Subsea 7 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 Subsea 7 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 banking and borrowing facilities in place, the forecast cash flows for the Group and the backlog position at 31 December 2021.

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 24 to 51. Financial risk management is as described in Note 33 ‘Financial instruments’.

Post balance sheet events

Regular dividend

The Board of Directors will recommend to the shareholders at the Annual General Meeting on 12 April 2022 that a regular dividend of NOK 1.00 per share be paid, equivalent to a total dividend of approximately $33 million, marking the Board’s confidence in the financial position and outlook for the Group.

Repayment of borrowings

On 18 January 2022, the Group repaid in full the amount outstanding under the Seaway 7 ASA Revolving Credit Facility of $37.0 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 page 145 to page 152. These were prepared in accordance with Luxembourg's legal and regulatory requirements and using the going concern basis of accounting described above. The profit for the year ended 31 December 2021 was $16 million (2020: loss of $0.3 million). The profit was mainly as a result of income related to parent company guarantees partly offset by operating expenses. It is proposed that the profit of $16 million for the year ended 31 December 2021 be allocated to profit and loss brought forward at 1 January 2022 resulting in a profit to be brought forward amounting to $125 million.

Own shares held

During 2021, the Company repurchased 2,724,172 shares for a total consideration of $21 million. At 31 December 2021 the Company directly held 4,534,107 (2020: 2,326,683) own shares at a carrying amount of $30 million (2020: $17 million).

Distributable amounts

At 31 December 2021, the Company had distributable amounts, as defined by Luxembourg law, totalling $859 million (2020: $925 million). Distributable amounts include share premium account, profit and loss account brought forward and profit or loss for the year. The year-on-year reduction was mainly related to special dividends paid of $70 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 Subsea 7 S.A. Group and is detailed in the Risk Management and Governance sections on pages 24 to 51. Financial risk management is described in Note 33 'Financial instruments'. Non-financial information required by regulation is provided on pages 1 to 51.

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

Kristian Siem
Chairman

John Evans
Chief Executive Officer