Financial Review

Management Report for Subsea7 Group (the Group)
Financial highlights

At a glance
- Adjusted EBITDA of $559 million resulting in an Adjusted EBITDA margin of 11%
- Net income of $36 million
- Cash and cash equivalents of $646 million and net cash of $33 million including lease liabilities
- Liquidity of $1.6 billion with $1.0 billion undrawn borrowing facilities
- Highest order intake since 2013 at over $7.0 billion with backlog of $9.0 billion, of which $4.2 billion to be executed in 2023 and $3.0 billion in 2024
- High tendering activity with recent awards and ongoing bids underpinning management's confidence in the outlook, including a return of Group Adjusted EBITDA margins to through-cycle levels of 15-20% over the coming four years
- Reflecting the Board's confidence in the outlook for Subsea7, it will propose for approval by shareholders at April's AGM a dividend of NOK 4.00 per share, including the NOK 1.00 per share regular dividend

In $ millions, except Adjusted EBITDA margin and per share data	**2022 31 Dec**	2021 31 Dec
Revenue	**5,136**	5,010
Adjusted EBITDA[a]	**559**	521
Adjusted EBITDA margin[a]	**11%**	10%
Net operating income	**149**	72
Net income	**36**	36
Earnings per share – in $ per share		
Basic	**0.20**	0.11
Diluted[b]	**0.19**	0.11

At (in $ millions)	**2022 31 Dec**	2021 31 Dec
Backlog[a]	**9,008**	7,212
Book-to-bill ratio[a]	**1.4x**	1.2x
Cash and cash equivalents	**646**	598
Borrowings	**(356)**	(422)
Net cash excluding lease liabilities[a]	**290**	176
Net cash/(debt) including lease liabilities[a]	**33**	(55)

(a) For explanations and reconciliations of Adjusted EBITDA, Adjusted EBITDA margin, Backlog, Book-to-bill ratio and Net cash/(debt) refer to the 'Alternative Performance Measures' section on page 143.
(b) For the explanation and a reconciliation of diluted earnings per share refer to Note 11 'Earnings per share' to the Consolidated Financial Statements.

Summary
2022 was a year of strong momentum for Subsea7 as the recovery in the subsea market gathered pace. The cumulative impact of years of underinvestment by the oil and gas industry combined with a new urgency for energy security supported a resurgence in demand for the Group's services. The increase in tendering and early engineering activity that the Group was experiencing 12 months ago translated into strong order intake in 2022, driving a rapid tightening of vessel availability and a significant improvement in new project margins. The Group recognised total order intake for the year of over $7 billion, the highest since 2013, and a backlog of over $9 billion at year end.

The Group's financial performance in 2022 with revenue of $5.1 billion, net operating income of $149 million and Adjusted EBITDA of $559 million was supported by improved results in the Subsea and Conventional business unit as demand for the Group's services in the oil and gas sector increased. The Renewables business unit did not perform as expected with problems encountered originating from the combination with OHT ASA, linked primarily to issues with the construction of *Seaway Alfa Lift*, which had a knock-on impact on the execution of the Dogger Bank A&B project, for which a provision was recognised in the year.

Net income was $36 million in 2022, in line with the prior year, with taxation of $100 million, an effective tax rate of 73%.

Net cash generated from operations in 2022 was $486 million and free cash flow was $255 million after capital expenditure of $231 million. At 31 December 2022, the Group held cash and cash equivalents of $646 million with net cash including lease liabilities of $33 million. The Group had liquidity of $1.6 billion with $1.0 billion undrawn borrowing facilities at year end.

Overall, Subsea7 delivered a good financial and operational performance in 2022, while making important progress on several aspects of its strategy, and it is well-placed to deliver growth, both near term and longer term.

Outlook

Management expect revenue and Adjusted EBITDA in 2023 to be higher than 2022, with a weighting towards the second half of the year.

The outlook for both traditional and new energy is robust, supported by a vast portfolio of potential developments in both subsea and offshore wind with attractive economics, all of which will be necessary if the industry is to meet the demand for global energy and provide energy security in Europe. Subsea7 is well positioned to address both markets, with a large and capable fleet of modern vessels. Availability of installation capacity for subsea and offshore fixed wind markets continues to tighten for 2024 and 2025, and the Group is now tendering projects for 2026 and beyond. Pricing and contract terms improved during 2022 and recent awards, as well as ongoing tenders, support management's view that long-term Adjusted EBITDA margins should trend back to a through-cycle range of 15-20% over the long term.

Income statement

Revenue

Revenue for the full year was $5.1 billion, an increase of $126 million or 3% compared to the prior year. The increase was driven by higher revenue in the Subsea and Conventional business unit partly offset by reduced revenue in the Renewables business unit.

Adjusted EBITDA

Adjusted EBITDA and Adjusted EBITDA margin for the year were $559 million and 11% respectively, compared to $521 million and 10% in 2021.

Net operating income

Net operating income for the year was $149 million, which included impairment reversals of $56 million, related to property, plant and equipment, compared to net operating income of $72 million in the prior year.

The main items contributing to the net operating income in the year were:

- net operating income of $229 million in the Subsea and Conventional business unit;
- net operating income of $5 million related to the Corporate business unit

partly offset by:

- net operating loss of $85 million in the Renewables business unit, which reflected costs incurred on the Formosa 2 project, Taiwan.

Net income

Net income was $36 million in 2022, which was in line with 2021.

Net income included:

- a net gain of $2 million within other gains and losses, which included net foreign currency loss of $7 million, compared to a net gain of $44 million in 2021 within other gains and losses, which included net foreign currency gains of $36 million; and
- an increase of $36 million in taxation compared to 2021, mainly driven by the increase in income before tax combined with irrecoverable withholding taxes in certain jurisdictions. The effective tax rate for 2022 was 73%.

Earnings per share

Diluted earnings per share was $0.19 in 2022, compared to diluted earnings per share of $0.11 for the prior year, calculated using a weighted average number of shares of 293 million and 299 million, respectively.

Business unit highlights
For the year ended 31 December 2022

(in $ millions)	Subsea and Conventional	Renewables	Corporate	Total
Revenue				
Fixed-price projects	**3,210.3**	**1,093.0**	**38.7**	**4,342.0**
Day-rate projects	**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 143.

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 the 'Alternative Performance Measures' section on page 143.

Subsea and Conventional

Revenue for the year was $3.9 billion, an increase of $229 million or 6% compared to 2021.

During the year, the Mad Dog 2, King's Quay, Jack St Malo 4, Anchor, Vito Construction and Colibri projects, in the Gulf of Mexico, the 28 Jackets, 3PDMs and Berri-Zuluf projects in Saudi Arabia, the Jubilee project, Ghana, the Terra Nova project, Canada, the Pierce, Blythe & Vulcan Satellite hubs projects, UK and the Johan Sverdrup Phase II project in Norway were substantially completed.

Work progressed on the Sangomar project, Senegal, the Sanha Lean Gas and CLOV 3 projects, Angola, the Sakarya project, Türkiye, the TOPR project in the Gulf of Mexico, the Scarborough project, Australia, the Trell & Trine, Northern Lights and Kobra East Gekko projects in Norway, and the ACE project, Azerbaijan.

In Brazil, there were high levels of utilisation of the four PLSVs under long-term contracts with Petrobras as well as continued progress on the Bacalhau and Mero 3 projects.

Net operating income was $229 million in 2021 compared to net operating income of $103 million in the prior year. The improved net operating income included impairment reversals of $56 million, related to property, plant and equipment and reflected good operational performance and the close-out of certain projects.

Renewables

Revenue for the year was $1.1 billion compared to $1.3 billion in 2021. Net operating loss was $85 million compared to net operating loss of $60 million in 2021.

During the year work progressed on the Seagreen project, UK as the project neared completion. Work continued with the offshore phase of the Dogger Bank A&B projects, both UK, the Zhong Neng, Changfang and Xidao, and Yunlin projects, Taiwan and the Hollandse Kust Zuid project, Dutch North Sea. The results of the Renewables business unit include costs recognised in relation to the Formosa 2 project in Taiwan, which was substantially completed during the year, whose economic interest was retained by Subsea 7 S.A., although it is being executed by Seaway 7 ASA. The net operating loss in 2022 also reflected continued challenges on the monopile scope of the Hollandse Kust Zuid project in the Dutch North Sea.

Corporate
Revenue, which was mainly driven by the Group's autonomous wholly-owned Xodus and 4Subsea and the Group's floating wind activities, was $116 million in 2022 compared to $76 million in 2021. The increased revenue reflected activity on the Hywind Tampen floating wind development project in Norway, which was substantially completed in the year. Net operating income was $5 million in 2022 compared to net operating income of $29 million in 2021. 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.

Vessel utilisation and fleet
Active Vessel Utilisation for the year was 78% compared with 83% for 2021. Total Vessel Utilisation was 74% compared to 77% in 2021.

At 31 December 2022 there were 38 vessels in the Group's fleet, comprising 36 active vessels and two vessels under construction. During the year, *Seven Antares* and *Seven Inagha* were classified as assets held for sale and no longer form part of the Group's fleet.

Cash flow

Cash flow statement
Cash and cash equivalents were $646 million at 31 December 2022, an increase of $48 million in the year. The movement in cash and cash equivalents was mainly attributable to:

- net cash generated from operating activities of $486 million, which included favourable movements of $28 million in net working capital;
- net cash used in investing activities of $220 million, which included purchases of property, plant and equipment and intangible assets of $231 million. This amount is lower than expected as stage gate payments in relation to the construction of *Seaway Alfa Lift* and *Seaway Ventus* were moved into 2023; and
- net cash used in financing activities of $211 million, which included payments related to lease liabilities of $111 million, repayment of borrowings of $62 million, dividends paid to equity shareholders of $32 million, share repurchases of $46 million partly offset by net cash received of $55 million following Seaway 7 ASA's equity rights issuance.

Free cash flow
During the year, the Group generated free cash flow of $255 million (2021: $127 million) which is defined as cash generated from operations of $486 million (2021: $293 million) less purchases of property, plant and equipment and intangible assets of $231 million (2021: $167 million).

Balance sheet

Non-current assets
At 31 December 2022, non-current assets were $4.5 billion (2021: $4.7 billion). The movement of $172 million was mainly due to a decrease in the carrying amount of property, plant and equipment, intangible assets and right-of-use assets of $127 million driven by depreciation and amortisation charges of $468 million partly offset by impairment reversals of $56 million related to property, plant and equipment and additions.

Non-current liabilities
At 31 December 2022 total non-current liabilities were $609 million (2021: $664 million). The decrease of $55 million was mainly driven by the reclassification of $58 million from non-current to current borrowings in line with repayment schedules.

Net current assets
Current assets were $2.4 billion (2021: $2.3 billion) and current liabilities were $1.9 billion (2021: $1.9 billion), resulting in net current assets of $537 million (2021: $457 million). The increase of $80 million in the year was driven by:

- decrease in trade and other liabilities of $82 million;
- increase in cash and cash equivalents of $48 million;
- increase in assets held for sale of $46 million

partly offset by:

- increase in construction contract liabilities of $114 million.

Equity
At 31 December 2022 total equity was $4.5 billion (2021: $4.5 billion). The decrease of $38 million in the year was driven by:

- net foreign currency translation losses of $51 million;
- share repurchases of $46 million;
- dividends of $34 million

partly offset by:

- Seaway 7 ASA's equity rights issuance of $54 million: and
- net income of $36 million.

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

Borrowings

At 31 December 2022, total borrowings were $356 million (2021: $422 million). The decrease of $66 million was mainly driven by the repayment of the Seaway 7 ASA Revolving Credit Facility of $37 million in early 2022 and 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 2022 is as follows:

(in $ millions)	Total facility	Drawn[a]	Undrawn	Maturity date
Multi-currency revolving credit and guarantee facility	700.0	–	700.0	June 2027
UK Export Finance (UKEF) facility	500.0	(200.0)	300.0	February 2028
South Korean Export Credit Agency (ECA) facility	159.8	(159.8)	–	January 2027[b]
Total	**1,359.8**	**(359.8)**	**1,000.0**	

(a) Borrowings presented in the Consolidated Balance Sheet are shown net of capitalised fees of $3.8 million, which are amortised over the period of the facility.
(b) 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

Lease liabilities at 31 December 2022 were $257 million, an increase of $26 million compared with 31 December 2021.

Net cash/(debt)

At 31 December 2022:

- net cash (excluding lease liabilities) was $290 million compared to net cash of $176 million at 31 December 2021; and
- net cash (including lease liabilities) was $33 million, compared to net debt of $55 million at 31 December 2021.

Gearing

At 31 December 2022, gross gearing (borrowings divided by total equity) was 8.0% (2021: 9.4%).

Liquidity

At 31 December 2022, the Group's liquidity, represented by cash and cash equivalents and undrawn borrowing facilities, was $1.6 billion (2021: $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 2023.

Shareholder distributions

Share repurchase programme

During the year ended 31 December 2022, 5,648,072 shares were repurchased in accordance with the Group's share repurchase programme authorised on 24 July 2019, extended on 15 April 2021, for a total consideration of $46 million. At 31 December 2022, the Group had cumulatively repurchased 10,000,212 shares for a total consideration of $77 million under this programme. At 31 December 2022, the Group directly held 9,794,267 shares (31 December 2021: 4,534,107) as treasury shares, representing 3.26% (31 December 2021: 1.51%) of the total number of issued shares.

Dividends

The regular dividend of NOK 1.00 per share was approved by the shareholders of Subsea 7 S.A. at the Annual General Meeting on 12 April 2022 and recognised in shareholders' equity in April 2022. The dividend of $31.7 million was paid on 6 May 2022 to shareholders of Subsea 7 S.A.

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	2022 %	2021 %
Siem Industries S.A.	**23.4**	23.2
Folketrygdfondet	**7.7**	7.9
BlackRock Institutional Trust Company, N.A.	**4.0**	4.0
Storebrand Kapitalforvaltning AS	**2.3**	2.2
DNB Asset Management AS	**2.2**	2.6
The Vanguard Group, Inc.	**2.1**	2.1
KLP Fondsforvaltning AS	**1.9**	–
SAFE Investment Company Limited	**1.9**	1.9
Pareto Asset Management AS	**1.8**	1.9
ODIN Forvaltning AS	**1.6**	1.7
Robotti & Company Advisors, LLC	**1.6**	1.8
Capital Research Global Investors	**1.5**	–
Alfred Berg Kapitalforvaltning AS	**1.3**	0.8
Artisan Partners Limited Partnership	**1.3**	–
Third Avenue Management LLC	**1.0**	0.9
Cobas Asset Management, SGIIC, SA	**1.0**	0.8
Alken Asset Management Ltd	**1.0**	0.8
Nordea Funds Oy	**0.8**	1.7
Eika Kapitalforvaltning AS	**0.8**	0.4
Dimensional Fund Advisors, L.P.	**0.8**	0.7
Total	**60.0**	55.4

(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 2022.

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 26 to 63. Financial risk management is as described in Note 34 'Financial instruments'.

Events after the reporting period

Borrowings

On 23 February 2023, the Group borrowed an additional $300 million under the UK Export Finance (UKEF) facility. The facility's availability period ended on 24 February 2023. At 2 March 2023, the amount outstanding under the facility, net of facility fees, was $494.6 million.

Dividends

The Board will propose a NOK 4.00 per share dividend, equivalent to a total of approximately $110 million, at the Annual General Meeting on 18 April 2023. In arriving at this proposal, the Board took into consideration the financial performance and prospects of the Group, the NOK 1.00 regular dividend policy commitment and the status of the 2022 share repurchase programme.

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 155 to page 162. 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 2022 was $7.7 million (2021: profit of $16.3 million). The profit was mainly driven by other operating income of $41.3 million related to parent company guarantees issued to subsidiaries of the Group, the reversal of a value adjustment of $10.9 million, mainly related to investments in affiliated undertakings, partly offset by operating expenses of $33.6 million and interest costs of $11.7 million. It is proposed that the profit of $7.7 million for the year ended 31 December 2022 be allocated to profit and loss brought forward at 1 January 2023 resulting in a profit to be brought forward amounting to $91.6 million.

Own shares held

During 2022, the Company repurchased 5,648,072 shares for a total consideration of $46.0 million. At 31 December 2022 the Company directly held 9,794,267 (2021: 4,534,107) own shares at a carrying amount of $75.0 million (2021: $29.9 million).

Distributable amounts

At 31 December 2022, the Company had distributable amounts, as defined by Luxembourg law, totalling $787.8 million (2021: $858.7 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 dividends paid of $33.6 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 26 to 63. Financial risk management is described in Note 34 'Financial instruments'. Non-financial information required by regulation is provided on pages 1 to 63.

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

Kristian Siem
Chairman

John Evans
Chief Executive Officer