DOF Subsea

2022
Annual Report

Index

Report of the Board of Directors

Key notes

The O&G markets have continued to improve in 2022 in addition to an increased demand for vessels within the renewable markets. The DOF Subsea Group ("the Group") achieved an average utilisation of its fleet of 93% through the year, and significant better performance compared to previous year especially within the Subsea IMR Project segment. The Group has further maintained its strong position within environmental and social sustainability, including investing in systems and equipment to improve environmental performance.

The Group had, since 2nd quarter 2020, been in negotiations with the financial creditors to secure a sustainable refinancing solution for the Group. A Restructuring Agreement (RA) was signed in June 2022 with the secured lenders and the bondholders, which among others included conversion of debt of approximately NOK 3 billion and new loan facilities for the Group. The RA was implemented and completed 22 March 2023.

The Group's revenue (management reporting) was NOK 8,302 million (NOK 5,545 million) and the EBITDA was NOK 2,939 million (NOK 2,087 million). The EBIT was NOK 2,693 million (NOK 848 million). The net result was NOK 747 million (NOK 82 million). The Group's operational cash flow was NOK 1,715 million (NOK 704 million) and net cash changes in cash after finance and investment activities was NOK 999 million (NOK -163 million). The cash flow has been positive impacted by standstill agreement (no interest and amortisation payments) with the financial creditors both in 2022 and in 2021.

Business Overview & Strategy

DOF Subsea AS ("the Company) is the parent company of several subsidiaries and corporations which provide essential offshore and subsea services to the global offshore industry, and own and operate a fleet of AHTS (anchor handling tug support vessels) and construction and subsea vessels. The Group is organised into two business segments, Subsea/IMR Projects and Long-term Chartering. Included in the Subsea/IMR Projects segment are engineering companies that are providing services within the subsea project market. The Group's fleet is a combination of vessels on term contracts and vessels utilised for subsea project activities. The subsea vessels on term contracts are serving the IMR (Inspection, Maintenance & Repair) market and the SURF (Subsea, Umbilicals, Risers & Flowlines) market. The Group's subsea projects include survey, diving services, ROV operations, construction and IMR among others. In 2022 the Group has been engaged in several offshore wind projects of which the Hywind Tampen project in the North Sea is considered the most important project.

The Group's Vision and Mission statements are the following:

Vision:

"The Group is a trusted and leading partner delivering services globally for a sustainable utilisation of offshore energy and other subsea resources"

Mission:

"The Group provide the technical capability, experience and assets globally to deliver dedicated subsea and marine services for our clients in an evolving subsea and offshore energy sector".

The Group will continue its strategy to be engaged in long-term and industrial offshore relationships and operate within a mix of project contracts and time charter contracts for its vessel and ROV fleet.

The Group, including DOFCON JV, operates a diversified and advanced fleet of 24 offshore vessels with a value-adjusted average age of approximately 8.5 years, and a fleet of 71 ROVs including 2 AUVs. As of 31st of December 2022, the Group also had two vessels chartered in from external owners. The Group has offices on all six continents and during the last decade the Group has invested in key regions such as the Atlantic (Europe, West-Africa and the Mediterranean), Brazil, North America and Asia-Pacific regions.

The Group has its headquarter in Bergen, Norway, and has offices located in Perth, Singapore, Manila, Jakarta, Oslo, Aberdeen, Luanda, Rio de Janeiro, Macaé, Houston and St. Johns. The Group is also represented in Malaysia,Ghana, Nigeria and Guyana.

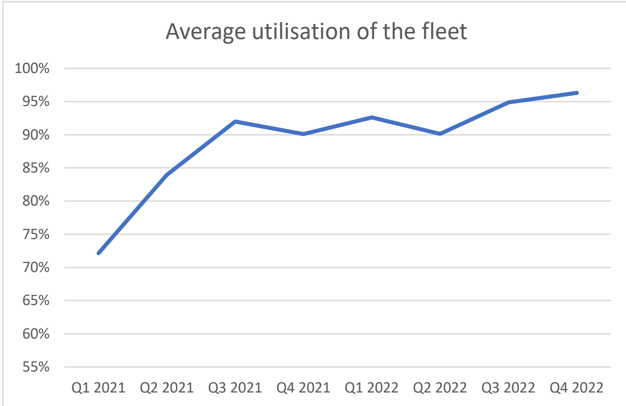
Operating segments

The Group experienced increased demand for its fleet in all regions and within all segments. The Group has through the year secured new contracts with a value of approximately NOK 12.6 billion (NOK 4 billion).

The utilisation of the vessels and ROV fleet has been stable and high during the year.

By year-end, the Group operated 24 vessels of which two vessels were on management or hired in from external parties. The majority of the subsea fleet is owned and operated by the subsidiary DOF Subsea Group ("DOF Subsea"). Two vessels have been agreed sold in 2022 of which one will be delivered in 2023.

Average utilization of the fleet



Subsea 24 ROV 69 AUV 2

Amounts in NOK million	Subsea/IMR Projects		Long-term Chartering		Total	
	2022	2021	2022	2021	2022	2021
Operating revenue	6 303	3 943	1 999	1 602	8 302	5 545
Operating result before depreciation and impairment - EBITDA	1 495	816	1 444	1 192	2 939	2 087
EBITDA margin	24%	21%	72%	74%	35%	38%

The activities from the subsea operations include operations from Subsea IMR project contracts and Long-term Chartering. During 2022, the Group has operated on average 17 vessels within the Subsea IMR projects and had by year-end approximately 1,650 employees engaged in this part of the business which is an increase of close to 15% since 2021. The Subsea IMR projects represented 76% (71%) of the Group's total revenue in 2022 (management reporting). The Subsea IMR project activities have been performed in four regions: the Atlantic region, the Asia-Pacific region, the North America region, and the South America region. The overall utilisation of the subsea project fleet during 2022 was 92% (80%). The Long-term Chartering comprises eight vessels of which seven vessels are PLSVs (pipe laying vessels). Six PLSVs are owned via the joint venture DOFCON, (50/50 owned with TechnipFMC). Total firm contract backlog is approximately NOK 16 billion, including the firm backlog of the DOFCON Brazil JV of NOK 4.4 billion.

The Atlantic region includes operations in the North Sea, Mediterranean and West Africa and has delivered good operating results with high project performance and utilisation of the Groups vessels. The region's activities in 2022 have been within the IMR segment on existing infrastructure, FPSO installations, decommissioning and mooring projects for clients mainly within O&G markets. The region has also executed several projects within renewables markets (offshore wind), with the Hywind Tampen as the main project. The Hywind Tampen project comprises installation of 11 floating wind turbines with the capacity of 88 MW, and where DOF Subsea is responsible for all the marine operations including towing, hook-up and installation of the units. The region has utilised several of the Group's vessels and hired external vessels in its project activity in the North Sea, West-Africa and the Mediterranean.

In the Asia-Pacific region various IMR frame agreements were the core activities, in addition to several mooring installations, decommissioning and diving projects. One vessel continued to operate on a firm contract in the Philippines and another vessel commenced in third quarter on the 3+2-year contract with Esso Australia. The remaining fleet in the region has operated in the project market, mainly on short term contracts.

The North America region has grown substantially during the year, and especially after the region was awarded a 3+2-year contract for two vessels with Esso in Guyana. The first vessel commenced operation in November, while the second vessel is planned to commence in first half of 2023. The vessels will perform IMR, intervention support, and subsea construction tasks to support the growing subsea infrastructures in the Stabroek Block offshore Guyana. The region has also been responsible for a SURF project in Gabon and mooring projects both in the Gulf of Mexico and in Equatorial Guinea. The region has further performed IMR, survey and light subsea construction projects for several key clients in the Gulf of Mexico utilising the Groups or hired in vessels. The North America region has further executed IMR and installation work under the long-term contract in Canada. Responding to higher activity the region has hired two Jones Act compliant vessels to support its operation in the Gulf of Mexico.

The activities in South America mainly represent operations in Brazil, and this region has shown strong performance throughout 2022. Throughout the year, the region operated multiple vessels and ROVs on a survey and inspection project (PIDF) for Petrobras, a diving vessel, and IMR and RSV vessels. The region has in 2022 secured several extensions on both the PIDF project, the RSV vessels, and ROV support on the AHTS vessels and built a considerable backlog for the Group in its region.

The PLSVs owned by the DOFCON JV have continued to operate on firm contracts in Brazil through the year and achieved a utilisation rate of 96% (90%). Two PLSVs were awarded two 3-year contracts with Petrobras in 2021, with commencement in 2022, and the other fleet has continued on firm contracts with Petrobras with a remaining duration of the contracts from 2-5 years. On the DOF Subsea owned PLSV, Skandi Africa, several options have been exercised and with the latest commitment the vessel will now run until February 2025.

Vessel management

The Group's management activities are performed by DOF Subsea Canada, the DOF companies DOF Management AS ("DOFMAN") and Norskan. DOFMAN's main office is in Norway and the company further controls branch offices in UK, Singapore, Australia, and Argentina. DOFMAN is responsible for the vessel management of the Group's fleet with operations outside Brazil and in addition all class renewals and conversion projects on the Group's total fleet. Norskan is responsible for vessel management of the fleet operating in Brazil.

The market

The Oil and Gas market continued with a high activity through the year mainly due to changes in the geopolitical picture after the Russian invasion of Ukraine resulting in instability on the supply side and increased demand for oil and gas in a transition phase into renewable energy sources. The positive trend has continued into 2023 and the supply-demand dynamics have tightened, and supporting continued strength in oil prices.

Total offshore capex is expected to rise 7.7% to USD 178 billion with both offshore deep water and offshore shelf adding 15.9%. Offshore opex is expected to rise by 15.5% to reach USD 203 billion with both offshore deep water and offshore shelf adding 14.2% according to Rystad Energy.

The subsea tree award activity has been slower over the the last few years but is estimated to rise with an average of around 350 trees per year to be installed globally from 2023-2027 and more than 760 projects at an estimated value of USD 426 million are expected to be sanctioned of which 40% are subsea tiebacks. The amount of subsea tie backs in the SURF segment gives strong numbers to the pipe and cable lay market. In Norway and Brazil 69 of the 91 upcoming projects to be sanctioned between 2023 and 2027 are subsea tiebacks. 8 FPSOs were awarded last year, and 12 awards are expected this year, driven largely by Brazil and Guyana. More FPSOs are expected to come online in coming years, driving further demand in the regions.

The Offshore wind market was affected by slightly lower investments in 2022, impacted by volatile energy prices and supply chain constraints, however outlook remains positive towards 2030 and beyond. Further growth has intensified and throughout 2022 several nations set ambitious targets towards the next decades. This is further supported by strong estimates from the sector in 2023, where over 16 GW is expected to become active. Spending on offshore wind installation segment is forecasted to increase by 43% overall in 2023 and the installed base globally is expected to double towards 2027 to close to 23 000 turbines.

Petrobras has contracted several additional PLSVs on multi-year contracts, combined with high decommissioning activity, with USD 7.3 billion worth of commitments between 2023-2027.

The AHTS vessels demand has been in strong growth due to a fast increase in drilling activity, especially from jack-ups requiring AHTS vessels for moves and mooring. The demand is set to rise for both AHTS vessels and PSVs the next years.

OCVs are in demand due to increased installation of subsea infrastructure such as subsea trees and SURF lines. With additional pressure from the offshore wind sector, where traditional O&G tonnage is going to the offshore wind market.

Social and Environmental Sustainability

Having sustainable operations is important for the Group. The successful balance between social, environmental and economic elements allows the Group to develop 'Sustainable Operations'. This ensures that the Group remains commercially feasible, socially acceptable and works within the capacity of the external environment.

The Group acts responsibly and ethically everywhere it operates, and the Group's operations and decisions are guided by the values – Respect, Integrity, Teamwork, Excellence – RITE – and above all we are Safe. This ensures honest, fair and equitable operations, protecting and building the Group's reputation.