FINANCIAL REVIEW

	Page
Management Report for Subsea 7 Group (the Group)	43
Management Report for Subsea 7 S.A. (the Company)	48

Management Report for Subsea 7 Group (the Group)

Financial highlights

For the year ended 31 December 2019 revenue was $3.7 billion, a decrease of $0.4 billion or 10% compared to the prior year. Adjusted EBITDA was $631 million (2018: $669 million) and Adjusted EBITDA percentage margin was 17% in 2019 compared with 16% in 2018. The Adjusted EBITDA margin in 2019 continued to reflect lower pricing on projects awarded during the downturn within the SURF and Conventional business unit, and significantly lower activity levels in the Renewables and Heavy Lifting business unit following the completion of the Beatrice wind farm project. Net operating loss was $23 million, which included a goodwill impairment charge of $100 million recognised in the Renewables and Heavy Lifting business unit, reflecting the impact of the competitive wind turbine foundations market in the short to medium term. Net loss for the year was $82 million. Excluding the goodwill impairment charge net income was $18 million. Adjusted diluted earnings per share, which excludes the goodwill impairment charge was $0.05 in 2019 compared to $0.56 in the prior year.

During 2019, Subsea 7 delivered solid operational results, continued to progress orders awarded at lower prices during the downturn and commenced work on projects with more favourable terms. The outlook for SURF and Conventional improved, with the level of tendering increasing year-on-year and pricing recovering gradually. Subsea Integration Alliance, the Group's SPS-SURF partnership with OneSubsea, made a significant contribution to order intake during the year, reinforcing the Group's momentum in greenfield subsea projects and reaffirming the strategy of early engagement and an integrated approach. In Renewables and Heavy Lifting, the cable-lay vessels continued to deliver good utilisation, but the wind turbine foundations market remains competitive. Management remains confident that the Group's client-focused approach and experience managing complex projects leave it well-positioned to create sustainable value in addressing clients' transition to lower carbon solutions.

The Group is committed to reducing its own environmental impact and 2020 will mark the publication of its first Sustainability Report, which will discuss the Group's sustainability strategy in more detail. The upgrade of the Life of Field vessel, *Seven Viking*, to hybrid power, has been successful and the first onshore control centre for ROV services was launched, this will help reduce the Group's carbon footprint for inspection, repair and maintenance services.

At 31 December 2019, order backlog was $5.2 billion with order intake during the year of $3.9 billion. There was a significant increase in new SURF awards primarily on brownfield developments, which typically have lower investment hurdles. Subsea 7's proprietary technology, early engagement and partnership approach were evident in a number of the awards in 2019, with Pipeline Bundles, Electrically Heat Traced Flowlines and integrated SPS-SURF collaboration creating cost-effective and differentiated solutions.

The Group's liquidity and financial position remains strong. At 31 December 2019, the Group held cash and cash equivalents of $398 million compared with $765 million at 31 December 2018, had total borrowings of $234 million compared with $258 million at 31 December 2018 and unutilised credit facilities totalling $656 million. In line with its strategy to grow and strengthen its business, the Group invested $284 million in acquisitions and capital expenditure, while maintaining a strong financial and liquidity position. Investment priorities included expanding its early engineering offering, developing efficient technologies and owning the right vessels to meet the needs of current and future projects. The Group's disciplined approach to capital management led to payments to shareholders totalling $304 million in 2019 through a combination of share repurchases and a special dividend.

While Subsea 7 is confident of the improving conditions in the Group's markets, in view of current global economic uncertainty and market volatility, combined with a change in law impacting the continuing validity of the Group's advance tax agreement with the Luxembourg authorities, which is still being evaluated, the Board of Directors does not recommend the payment of a special dividend to the shareholders at the Annual General Meeting on the 7 April 2020. Rather, the Group will manage its returns to shareholders through the current $200 million share repurchase programme.

For the year ended (in $ millions, except Adjusted EBITDA margin, share and per share data)	2019 31 Dec	2018 31 Dec
Revenue	**3,657**	4,074
Adjusted EBITDA[a] (unaudited)	**631**	669
Adjusted EBITDA margin[a] (unaudited)	**17%**	16%
Net operating income excluding goodwill impairment charge	**77**	200
Goodwill impairment charge	**(100)**	–
Net operating (loss)/income	**(23)**	200
Net income excluding goodwill impairment charge	**18**	165
Net (loss)/income	**(82)**	165
Earnings per share – in $ per share		
Basic	**(0.27)**	0.56
Diluted[b]	**(0.27)**	0.56
Adjusted diluted[b]	**0.05**	0.56

At (in $ millions)	2019 31 Dec	2018 31 Dec
Backlog	**5,187**	4,907
Cash and cash equivalents	**398**	765
Borrowings	**(234)**	(258)
Net cash (excluding IFRS 16 ‘Leases’ liabilities)	**164**	507
Net debt (including IFRS 16 ‘Leases’ liabilities)	**(181)**	–[c]

(a) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to page 124 ‘Adjusted EBITDA and Adjusted EBITDA margin’ of the Consolidated Financial Statements. IFRS 16 ‘Leases’ was implemented on 1 January 2019 and comparative figures for 2018 have not been restated, as a result Adjusted EBITDA for the year ended 31 Dec 2019 benefitted by $105 million.

(b) For the explanation and a reconciliation of diluted earnings per share and Adjusted diluted earnings per share, which excludes the impact of the goodwill impairment charge, refer to Note 11 ‘Earnings per share’ to the Consolidated Financial Statements.

(c) IFRS 16 ‘Leases’ was implemented on 1 January 2019, comparative figures for 2018 have not been restated, as a result net debt (including IFRS 16 ‘Leases’ liabilities) at 31 December 2018 has not been shown.

Revenue
Revenue for the year ended 31 December 2019 was $3.7 billion, a decrease of $0.4 billion or 10% compared to 2018. The year-on-year decrease was primarily due to significantly lower activity levels in the Renewables and Heavy Lifting business unit following the completion of the Beatrice wind farm project.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the year ended 31 December 2019 were $631 million and 17% respectively, compared to $669 million and 16% in 2018. The year ended 31 December 2019 benefitted by $105 million compared to the prior year due to the implementation of IFRS 16 ‘Leases’ on 1 January 2019. Adjusted EBITDA margin in 2019 reflected lower pricing on projects awarded during the downturn within the SURF and Conventional business unit and significantly lower activity levels within the Renewables and Heavy Lifting business unit.

Net operating income/(loss)
Net operating loss for the year ended 31 December 2019 was $23 million, compared to net operating income of $200 million in 2018. The decrease was mainly due to:

- significantly lower activity levels in the Renewables and Heavy Lifting business unit, which reported an operating loss of $56 million excluding goodwill impairment charge in 2019 compared to operating income of $4 million in 2018;
- a goodwill impairment charge of $100 million related to the Renewables and Heavy Lifting business unit;
- impairment charges related to property, plant and equipment of $70 million compared to $13 million in 2018

partially offset by:

- impairment charges of $25 million, related to intangible assets, recognised in 2018 with no equivalent charge in 2019.

Net operating income, excluding the impact of the goodwill impairment charge, was $77 million, a decrease of $123 million compared to 2018.

Net income/(loss)
Net loss was $82 million for the year ended 31 December 2019, compared to net income of $165 million for the prior year. The net loss for 2019 was primarily due to:

- net operating loss of $23 million in 2019, compared with net operating income of $200 million in 2018;
- net foreign currency losses of $30 million for the year ended 31 December 2019, compared to net foreign currency gains of $7 million in 2018;
- an increase of $11 million in finance costs mainly due to the implementation of IFRS 16 ‘Leases’ from 1 January 2019

partially offset by:

- a decrease in the taxation charge of $22 million compared with the prior year.

Net income excluding the goodwill impairment charge was $18 million for 2019 compared to net income of $165 million in 2018.

Excluding the impact of the goodwill impairment charge of $100 million and the impairment charges of $70 million related to property, plant and equipment, which both attracted limited tax relief, the effective tax rate for the year ended 31 December 2019 was 27% compared with 24% in the prior year.

Earnings per share

Diluted loss per share was $0.27 for the year ended 31 December 2019 compared to diluted earnings per share of $0.56 in 2018, calculated using a weighted average number of shares of 305 million and 327 million respectively. Adjusted diluted earnings per share, which excludes the impact of the goodwill impairment charge, was $0.05 compared to $0.56 in 2018.

Allocation of net income/(loss)

The net loss for the year of $82 million (2018: net income of $165 million) was transferred to equity, of which net loss of $84 million (2018: net income of $183 million) was recognised in retained earnings attributable to shareholders of the parent company and net income of $1 million in non-controlling interests (2018: net loss of $18 million).

Business Unit Highlights
For the year ended 31 December 2019

(in $ millions)	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Selected financial information:					
Revenue	**3,174.1**	**265.6**	**216.9**	**–**	**3,656.6**
Net operating income/(loss) excluding goodwill impairment charge	**159.8**	**(2.8)**	**(56.1)**	**(23.9)**	**77.0**
Impairment of goodwill	**–**	**–**	**(99.9)**	**–**	**(99.9)**
Net operating income/(loss)	**159.8**	**(2.8)**	**(156.0)**	**(23.9)**	**(22.9)**

For the year ended 31 December 2018

(in $ millions)	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Selected financial information:					
Revenue	3,164.3	245.2	664.0	0.3	4,073.8
Net operating income/(loss)	230.7	(11.7)	3.9	(22.9)	200.0

SURF and Conventional

Revenue was $3.2 billion for the year ended 31 December 2019, in line with 2018.

During the year ended 31 December 2019, the West Nile Delta GFR field development project, offshore Egypt, the PUPP and Asabo Flare Restoration projects, offshore Nigeria, the Hasbah project, offshore Saudi Arabia, the Storr and Alligin projects, offshore UK, the Oda, Yme and Aaskalad projects, offshore Norway and the Sole project, offshore Australia completed or neared completion. Work progressed on the Burullus 9B project, offshore Egypt, the 3PDMs and Berri-Zuluf projects, offshore Saudi Arabia, the Mad Dog 2, Katmai and Manuel projects in the US Gulf of Mexico, the Snorre, Nova and Ærfugl projects, offshore Norway and the Arran and Penguins projects, offshore UK. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras and work commenced on the Lapa NE project.

Net operating income was $160 million for the year ended 31 December 2019, a decrease of $71 million or 31% compared to 2018. The decrease in net operating income was primarily driven by lower pricing on projects awarded during the downturn, and impairment charges of $67 million recognised in 2019, related to property, plant and equipment, compared to impairment charges of $26 million in 2018, mainly related to intangible assets.

Life of Field

Revenue for the year ended 31 December 2019 was $266 million, an increase of $20 million or 8% compared to 2018. The increase in revenue was primarily driven by increased inspection, repair and maintenance activities, offshore Azerbaijan, in the North Sea and Gulf of Mexico.

Net operating loss was $3 million for the year ended 31 December 2019 compared to net operating loss of $12 million in 2018. The decrease in net operating loss reflected $12 million of impairment charges, related to property, plant and equipment, recognised in 2018 with no equivalent charge in 2019.

Renewables and Heavy Lifting

Revenue was $217 million for the year ended 31 December 2019 compared to $664 million in 2018. The reduction in revenue was primarily due to lower activity on the Beatrice wind farm project, offshore UK, which is operationally complete. Net operating loss was $156 million in 2019, compared to net operating income of $4 million in 2018. In 2019, impairment charges of $100 million related to goodwill, and $3 million, related to property, plant and equipment, were recognised reflecting the impact of the competitive wind turbine foundations market in the short to medium term. Net operating loss excluding the goodwill impairment charge was $56 million compared to net operating income of $4 million in 2018, the decrease reflected lower activity levels compared with the prior year, due to the completion of the Beatrice wind farm project, and a competitive market environment.

Research and development
During the year, research and development costs were $22 million compared to $19 million in 2018.

Backlog
At 31 December 2019 backlog was $5.2 billion, an increase of $0.3 billion compared with 31 December 2018. Order intake totalling $3.9 billion, including escalations, was recorded in the year. New awards included the Marjan Phase 2 and Berri-Zuluf projects, offshore Middle East, the Julimar Phase 2 project, offshore Australia, the Johan Sverdrup Phase 2 and Ærfugl Phase 2 projects, offshore Norway and the Formosa 2 project, offshore Taiwan.

$4.1 billion of the backlog at 31 December 2019 related to the SURF and Conventional business unit (which included $0.6 billion related to long-term day-rate contracts for PLSVs in Brazil), $0.6 billion related to the Life of Field business unit and $0.5 billion related to the Renewables and Heavy Lifting business unit. $3.3 billion of this backlog is expected to be executed in 2020, $1.4 billion in 2021 and $0.5 billion in 2022 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Balance sheet
Goodwill
At 31 December 2019, goodwill was $705 million, a net decrease of $47 million compared with the prior year. During the year goodwill of $45 million was recognised in connection with acquired businesses and an impairment charge of $100 million was recognised related to the Renewables and Heavy Lifting business unit as a result of the short to medium-term competitive nature of the wind turbine foundations market.

Property, plant and equipment
During 2019 additions to property, plant and equipment totalled $272 million (2018: $223 million) which included the continued construction of the reel-lay vessel, *Seven Vega*, which is due to commence operations during 2020.

Impairment charges totalling $70 million were recognised in the year (2018: $13 million), mainly related to two older vessels which are expected to leave the fleet during 2020.

Acquisition of businesses
During the year the Group invested $26 million in acquisitions (net of cash acquired), this mainly related to acquiring 4Subsea, and the remaining 40% in Xodus which was not already held by the Group.

Borrowings and lease liabilities
Borrowings decreased to $234 million at 31 December 2019 from $258 million at 31 December 2018 due to scheduled repayments. Lease liabilities were $345 million at 31 December 2019, following their initial recognition on the balance sheet as of 1 January 2019, on implementation of IFRS 16 'Leases'.

Facilities
At 31 December 2019 the Group had facilities of $656 million relating to the Group's multi-currency revolving credit and guarantee facility, all of which remained unutilised.

Share repurchase plans
In line with the Group's objective to give its shareholders an attractive return on their investment, 21,056,838 shares were repurchased during 2019 for a total consideration of $250 million. On 24 July 2019, The Board of Directors authorised a new share repurchase programme of up to $200 million, valid for two years. During 2019 there were no shares repurchased under this new programme. At 31 December 2019, the Group directly held 1,212,860 shares (2018: 8,240,024) as treasury shares.

Dividends
A special dividend of NOK 1.50 per share was approved by the shareholders of Subsea 7 S.A. at the Annual General Meeting on 17 April 2019. The total dividend of $53.8 million was paid on 3 May 2019.

Shareholders

The 20 largest shareholders at 31 December 2019 and their beneficial ownership[a] as a percentage of the total fully paid and issued common shares of the Company were:

	%
Siem Industries, Inc.	23.9
Folketrygdfondet	8.9
BlackRock Institutional Trust Company, N.A.	3.7
DNB Asset Management AS	3.3
Trinity Street Asset Management LLP	3.2
Nordea Funds Oy	2.7
KLP Forsikring	2.5
Eleva Capital LLP	2.3
The Vanguard Group, Inc.	2.2
Danske Capital (Norway)	2.1
Storebrand Kapitalforvaltning AS	2.1
Robotti & Company Advisors, LLC	2.0
Schroder Investment Management Ltd. (SIM)	2.0
Pareto Asset Management AS	2.0
SAFE Investment Company Limited	1.9
ODIN Forvaltning AS	1.6
Alfred Berg Kapitalforvaltning AS	1.2
BlackRock Investment Management (UK) Ltd.	1.2
Dimensional Fund Advisors, L.P.	0.9
Holberg Fondsforvaltning AS	0.8

(a) The data is provided by NASDAQ OMX 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 OMX can guarantee the accuracy of the analysis.

Cash and cash equivalents

Movements in cash and cash equivalents are summarised as follows:

For the year ended (in $ millions)	**2019 31 Dec**	2018 31 Dec
Cash and cash equivalents at the beginning of the year	**765**	1,109
Net cash generated from operating activities	**357**	424
Net cash used in investing activities	**(274)**	(425)
Net cash used in financing activities	**(447)**	(335)
Decrease in restricted cash	**–**	2
Effect of exchange rate changes on cash and cash equivalents	**(3)**	(10)
Cash and cash equivalents at the end of the year	**398**	765

Net cash generated from operating activities was $357 million (2018: $424 million) which included a net decrease in operating liabilities of $145 million (2018: $167 million).

Net cash used in investing activities was $274 million compared with $425 million used in 2018. This was mainly related to expenditure on property, plant and equipment of $240 million (2018: $238 million) and expenditure related to intangible assets of $18 million (2018: $6 million). In addition, cash outflow related to acquisition of businesses (net of cash acquired) was $26 million in 2019 (2018: $161 million) and a payment of $30 million was made related to contingent consideration in respect of acquisitions made in prior years.

Net cash used in financing activities was $447 million (2018: $335 million), which was mainly driven by the repurchase of shares in the parent company of $250 million and the payment of a dividend to shareholders of the parent company of $54 million.

New-build vessel programme

During 2019 construction continued on the Group's new reel-lay vessel, *Seven Vega*, and associated pipelay equipment. The total cost, excluding capitalised interest, is expected to be below $300 million and the vessel is expected to commence operations during 2020.

Liquidity

At 31 December 2019, the Group had sufficient liquidity to meet its expected funding requirements for the next 12 months. The Group had cash and cash equivalents of $398 million and unutilised committed credit and guarantee facilities of $656 million, all of which were available for cash drawings. The Group monitors its future business opportunities on a continuous basis and actively reviews its credit and guarantee facilities and its long-term funding requirements.

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.

Covenant compliance
The Group's credit facilities contain various financial covenants including, but not limited to, a minimum level of tangible net worth, a maximum level of net debt to earnings before interest, taxes, depreciation and amortisation, a maximum level of total financial debt to tangible net worth, a minimum level of cash and cash equivalents and an interest cover covenant. During the year all covenants were met. The Group expects to be able to comply with all financial covenants during 2020.

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 2019.

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 20 to 41. Financial risk management is as described in Note 33 'Financial instruments'.

Post balance sheet events
Assets classified as held for sale
During January 2019, a vessel was classified as an asset held for sale with the criteria specified within IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' being met. The asset is held at its fair value at the balance sheet date and is expected to be sold within the next 12 months. In addition a second vessel was removed from the active fleet in preparation for recycling.

Outlook
The continued improvement in the deepwater oil and gas markets has supported increased tendering activity and a gradual improvement in pricing compared to 2018. Since the year end, the Group has announced a number of greenfield FEED and SURF awards and, in addition, it is currently working on tenders with an estimated value of approximately $11 billion, up from approximately $9 billion at the same time last year.

While demand for offshore wind turbine services is growing in support of the transition to low carbon energy production, continued competition in the foundations market continues to negatively impact pricing. This is expected to improve in the longer term as the market rebalances.

Revenue and Adjusted EBITDA in 2020 is expected to be higher than in 2019, driven by an increase in activity in key markets. The Adjusted EBITDA margin is expected to remain relatively subdued, as projects awarded with competitive pricing progress to offshore execution.

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 129 to page 136. These were prepared in accordance with Luxembourg's legal and regulatory requirements and using the going concern basis of accounting further described above. The profit for the year ended 31 December 2019 was $61 million (2018: $127 million). The profit was mainly as a result of a dividend received during the year from an affiliated undertaking, partially offset by value adjustments in respect of investments in affiliated undertakings. It is proposed that the profit of $61 million for the year ended 31 December 2019 be allocated to profit and loss brought forward at 1 January 2020 resulting in a profit to be brought forward amounting to $173 million.

Own shares held
In line with the Company's objective to give its shareholders an attractive return on their investment, 21,056,838 shares were repurchased during 2019 for a total consideration of $250 million. At 31 December 2018 the Company directly held 1,212,860 (2018: 8,240,024) own shares at a carrying amount of $14 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 20 to 41. Financial risk management is as described in Note 33 'Financial instruments'.

Non-financial information required by regulation is provided in pages 1 to 41.

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

Kristian Siem	**John Evans**
Chairman	Chief Executive Officer