subsea 7

Subsea 7 S.A. Announces Second Quarter and Half Year 2020 Results

Luxembourg – 29 July 2020 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY, ISIN: LU0075646355) announced today results for the second quarter and first half of 2020 which ended 30 June 2020.

Second quarter summary

- Order intake totalled $2.0 billion, equivalent to a book-to-bill ratio of 2.7, with six awards announced in the second quarter including orders worth $1.7 billion in the Renewables business unit
- Order backlog increased to $7.0 billion at quarter end, of which Renewables represents 31%, with $2.1 billion expected to be executed in the remainder of 2020
- Negative Adjusted EBITDA of $9 million for the second quarter of 2020, reflecting a $104 million restructuring charge, the impact of Covid-19 and low vessel utilisation in certain markets
- Impairment charges relating to property, plant and equipment and right-of-use assets of $229 million and goodwill impairment charges of $578 million adversely impacted net operating income in the quarter
- On track to deliver approximately $400 million in annualised cash cost savings by the second quarter 2021. Active fleet reduced by four vessels to 28 from 32. Employee consultation processes to reduce headcount underway
- Strong cash flow from operations, active working capital management and disciplined capital expenditure resulted in an increase in cash and cash equivalent of $144 million
- A two-year extension to September 2023 of the $656 million revolving credit facility. Both the revolving credit facility and Euro Commercial Paper programme remain undrawn

	Second Quarter		Half Year	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Revenue	**754**	958	**1,505**	1,817
Adjusted EBITDA[(a)]	**(9)**	171	**59**	282
Adjusted EBITDA margin[(a)]	**(1%)**	18%	**4%**	16%
Net operating (loss)/income excluding goodwill impairment charges	**(352)**	45	**(401)**	35
Goodwill impairment charges	**(578)**	–	**(578)**	–
Net operating (loss)/income	**(930)**	45	**(979)**	35
Net (loss)/income	**(922)**	24	**(959)**	5
Earnings per share – in $ per share				
Basic	**(3.06)**	0.09	**(3.19)**	0.03
Diluted[(b)]	**(3.06)**	0.09	**(3.19)**	0.03
Adjusted diluted[(b)]	**(1.12)**	0.09	**(1.24)**	0.03

At (in $ millions)	**30 Jun 2020 Unaudited**	31 March 2020 Unaudited
Backlog - unaudited[(c)]	**7,021**	5,648
Cash and cash equivalents	**483**	340
Borrowings	**(221)**	(228)
Net cash[(d)]	**262**	112
Net debt[(d)]	**(30)**	(255)

(a) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to Note 8 'Adjusted EBITDA and Adjusted EBITDA margin' to the Condensed Consolidated Financial Statements.

(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 charges, refer to Note 7 'Earnings per share' to the Condensed Consolidated Financial Statements.

(c) Backlog at 30 June 2020 and 31 March 2020 is unaudited and is a non-IFRS measure.

(d) Net cash is a non-IFRS measure and is defined as cash and cash equivalents less borrowings. Net debt is defined as net cash less lease liabilities.

John Evans, Chief Executive Officer, said:

In the second quarter of 2020 Subsea 7 reported a negative Adjusted EBITDA of $9m, reflecting reduced activity within the SURF and Conventional business unit, the impact of the Covid-19 pandemic, and the recognition of $104 million of restructuring costs related to the Group's resizing programme. Nevertheless, the quarter was marked by several notable achievements including $1.7 billion of new orders in Renewables, strong cash generation and progress on the previously announced cost reduction measures. Each of these played a part in enhancing the Group's resilience to the current downturn in oil and gas while enabling us to capture opportunities in the offshore wind market and extend our ten-year track record in renewable energy.

Success in Renewables

Subsea 7 ended the second quarter with a robust backlog of $7.0 billion, including a record $2.2 billion in Renewables. New orders recorded in backlog during the quarter included Seagreen, an integrated EPCI project offshore Scotland, Kaskasi, an integrated contract offshore Germany, and Hollandse Kust Zuid, an integrated contract for the first planned subsidy free wind farm project offshore the Netherlands. In total, Subsea 7 is currently executing contracts for projects representing 4.8 GW of offshore wind power, enough to power approximately 5.3 million homes.

Strong cash generation, a robust balance sheet and enhanced liquidity

Despite the headwinds of the quarter, the Group increased cash and cash equivalent by $144 million and increased its net cash balance, excluding lease liabilities, to $262 million. During the quarter lease liabilities decreased to $292 million from $367 million. This was achieved through a combination of robust operating cash flow, active working capital management and disciplined capital expenditure. Subsea 7's access to liquidity was reinforced in the quarter by a two-year extension of the existing $656 million revolving credit facility (RCF) to September 2023. The RCF and Euro Commercial Paper programme remain undrawn. These facilities together with a cash balance of $483 million represent access to diverse sources of liquidity of over $1 billion.

Cost reduction plans on track

In May we announced planned measures to reduce our cost base in anticipation of a sharp downturn in oil and gas activity driven by low oil prices. The employee consultation process to reduce the Group's headcount by around 3,000 (approximately 1,000 employees and 2,000 non-permanent personnel) is underway. Progress is also being made to reduce our fleet by up to ten vessels. At the end of June, two chartered vessels had been released and two further vessels had been stacked, reducing our active fleet to 28. An additional net reduction of six vessels is currently planned for the coming twelve months, corresponding to the phasing of the projected workload. We remain on track to meet our target to reduce annualised operating costs by $400 million by the end of the second quarter of 2021. As a result of implementation of the cost reduction plan, a restructuring charge of $104 million was recorded in the quarter.

An update on Covid-19

During the second quarter, the Covid-19 pandemic adversely impacted EBITDA by approximately $30 million. Operational impacts due to Covid-19 in the second quarter included three weeks' downtime on *Seven Sun* in Brazil and the temporary closure of certain onshore facilities. Our project teams were quick to adapt to new work practices and to date have minimised disruption to our clients' projects. While the challenges persist, we have had no further significant outbreaks on vessels and our onshore facilities are now operational, albeit with higher costs and reduced productivity due to quarantine and social distancing measures.

Second quarter financial review

Second quarter revenue of $754 million was 21% lower than the prior year period, but broadly in line with the first quarter of 2020, reflecting continued low activity levels in the North Sea, an absence of conventional activity offshore Africa and the Middle East, and the rephasing of some recently awarded contracts due to low oil prices and Covid-19 restrictions. A negative Adjusted EBITDA of $9 million was adversely impacted by the restructuring charge of $104 million, incremental costs associated with Covid-19 of approximately $30 million and relatively low levels of vessel utilisation. Impairment charges totalling $807 million were incurred in the quarter, including $229 million relating to property, plant and equipment (predominantly vessels) and right-of-use assets and $578 million relating to the impairment of goodwill. The net loss for the quarter was $922 million.

During the quarter, net cash generated from operations was $219 million including a favourable movement in working capital due to reduced receivables. Capital expenditure was $33 million. Cash and cash equivalents increased by $144 million. The Group ended the quarter with net cash excluding leases liabilities of $262 million, equating to net debt of $30 million including lease liabilities of $292 million.

In the second quarter of 2020, Subsea 7 was successful in a number of tenders and booked new orders totalling $2.0 billion. The level of escalations in the quarter was not significant. Backlog at the end of June was $7.0 billion, of which $2.1 billion is expected to be executed in the remainder of 2020. The backlog for execution in 2021 of $3.4 billion is up 70% since the end of the first quarter.

Second quarter operational review

The SURF and Conventional business unit made good progress on several projects in the second quarter. Fabrication of the Electrically Heat-Traced Flowline for the Manuel project in the Gulf of Mexico was completed and pipelay operations began for Mad Dog 2. In Norway, *Seven Oceans* completed the installation of three pipelines for the Johan Castberg project, while *Seven Arctic* completed the installation of a bundle for the Snorre project and began offshore operations for the Ærfugl project. In the UK, diving activity was lower than usual, however, good operational progress was made on the Arran project with *Seven Borealis*.

The Renewables business unit completed the offshore scope of the Virginia Coastal Wind project during the quarter and preparations began for the Yunlin project, with vessels in transit to Taiwan for the offshore scope. An incident on *Seaway Strashnov* impacted progress on the Triton Knoll project. The vessel returned to the field in June and, along with a third party vessel, is now making good progress towards meeting the original schedule.

Overall, utilisation of Subsea 7's active fleet was 71% in the second quarter, compared to 80% in the prior year period, reflecting a subdued market in the UK North Sea, low conventional activity in Africa and the Middle East, and downtime on *Seven Sun* and *Seaway Strashnov*. At 30 June 2020, the active fleet comprised 28 vessels.

Outlook for 2020

Since March, the operating environment has stabilised to some extent, with a partial recovery in the price of oil and new work practices relating to Covid-19 now well-established.

In SURF and Conventional, clients' capital expenditure budgets have fallen by 25% to 30% since the beginning of the year and, as a result, some contracts have been rescheduled and tendering activity for new awards remains low. To date, we have experienced no contract cancellations. Our plan to resize the fleet and the cost base is progressing and will help to mitigate the impact of the expected reduction in activity levels.

In Renewables existing projects have been largely unaffected by the challenging environment and tendering activity remains robust. Competition for offshore wind turbine foundation installation work remains high, but the Group continues to differentiate itself through its integrated approach encompassing both foundation and inner-array cables, and through a lump-sum turnkey contract offering that leverages our strengths in the management of large, complex projects.

In April, we withdrew guidance for the full year given low visibility on several factors influencing our business including the pace of new awards, rescheduling of existing work and the impact of Covid-19. While there remains a significant degree of uncertainty, including the potential impact of a new wave of Covid-19 cases on both our activities and, more broadly, the macro environment, visibility on our project workload for the remainder of the year has improved. At present we anticipate that revenue for the full year 2020 will be broadly in line with the prior year, while Adjusted EBITDA, excluding restructuring costs of $104 million, is expected to be in line with current market expectations.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 29 July 2020

Time: 12:00 UK Time

Conference ID: 4962887

	Access details
United Kingdom	0844 481 9752
United States	646 741 3167
Norway	21 56 30 15
International Dial In	+44 20 7192 8338
Webcast and replay	Subsea 7 webcast

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Second Quarter 2020

Revenue

Revenue for the second quarter was $754 million, a decrease of $204 million or 21% compared to Q2 2019. This reduction was driven by lower activity levels in the SURF and Conventional business unit, with low levels of Conventional activities in West Africa and the Middle East, and the impact of Covid-19 on operations globally including PLSV operations in Brazil.

Revenue in the Life of Field business unit was $62 million, a decrease of $4 million compared with Q2 2019. Revenue in the Renewables and Heavy Lifting business unit was $66 million, an increase of $17 million compared to Q2 2019, driven by higher activity levels in Taiwan and the North Sea.

Adjusted EBITDA

Adjusted EBITDA and Adjusted EBITDA margin for the quarter were negative $9 million and negative 1% respectively, compared to $171 million and 18% in Q2 2019. Adjusted EBITDA margin in Q2 2020 reflected reduced activity within the SURF and Conventional business unit compared with Q2 2019, the impact of the Covid-19 pandemic, which had an incremental net cost of approximately $30 million, and the recognition of $104 million of restructuring costs related to the Group's resizing programme.

Net operating loss

Net operating loss, excluding goodwill impairment charges, was $352 million, compared to net operating income of $45 million in Q2 2019. The main items contributing to the net operating loss in the quarter were:

- lower activity levels in the SURF and Conventional business unit;
- impairment charges of $212 million related to property, plant and equipment, mainly related to older vessels or vessels expected to have low utilisation;
- impairment charges of $17 million related to right-of-use assets;
- restructuring costs of $104 million related to the Group's resizing programme; and
- incremental net costs of approximately $30 million related to the Covid-19 pandemic.

In the second quarter, goodwill impairment charges of $578 million were recognised within the SURF and Conventional Business unit, the charges were driven by downward revisions in expected activity levels in the short to medium term.

Net loss

Net loss was $922 million in the quarter, compared to net income of $24 million in Q2 2019.

The year-on-year movement in net loss was primarily due to:

- the net operating loss recognised in the quarter

Partly offset by:

- a tax credit of $17 million in Q2 2020 compared to a tax charge of $13 million in Q2 2019. The tax credit in the quarter reflected limited tax relief available on the impairment charges recognised.

Earnings per share

Diluted loss per share was $3.06 in Q2 2020 compared to diluted earnings per share of $0.09 in Q2 2019, calculated using a weighted average number of shares of 297 million and 308 million respectively. Adjusted diluted loss per share, which excludes the impact of the goodwill impairment charges was $1.12 in Q2 2020 compared to earnings per share of $0.09 in Q2 2019.

Cash and cash equivalents

Cash and cash equivalents were $483 million at 30 June 2020, an increase of $144 million in the quarter. The movement in cash and cash equivalents during the quarter was mainly attributable to:

- net cash generated from operating activities of $219 million

partially offset by:

- purchases of property, plant and equipment and intangible assets of $33 million; and
- payments related to lease liabilities of $26 million.

Borrowings and lease liabilities

Borrowings decreased to $221 million at 30 June 2020 from $228 million at 31 March 2020 due to scheduled repayments. At 30 June 2020, lease liabilities were $292 million, a decrease of $75 million compared with 31 March 2020. The reduction was driven by payments made in the quarter, the reassessment of expected lease periods and lease terminations.

Half Year 2020

Revenue

Revenue for the half year ended 30 June 2020 was $1.5 billion, a decrease of $313 million or 17% compared to 1H 2019. The year- on-year decrease was primarily related to the SURF and Conventional business unit driven by a significant reduction in activity in West Africa and the Middle East, low levels of diving activity in the UK North Sea and rephasing of recently awarded work due to low oil prices and the Covid-19 pandemic.

Adjusted EBITDA

Adjusted EBITDA and Adjusted EBITDA margin for the half year was $59 million and 4% respectively, compared to $282 million and 16% in 1H 2019. 1H 2020 Adjusted EBITDA reflected significantly reduced activity within the SURF and Conventional business unit compared with Q2 2019, the impact of the Covid-19 pandemic which had an incremental net cost of approximately $45 million and the recognition of $104 million of restructuring costs related to the Group's resizing programme.

Net operating loss
Net operating loss, excluding goodwill impairment charges, for the half year ended 30 June 2020 was $401 million, compared to net operating income of $35 million in 1H 2019. The main items contributing to the net operating loss were:

- lower activity levels in the SURF and Conventional business unit;
- impairment charges of $212 million related to property, plant and equipment, mainly related to older vessels or vessels expected to have low utilisation;
- impairment charges of $17 million related to right-of-use assets;
- restructuring costs of $104 million related to the Group's resizing programme; and
- incremental net costs of approximately $45 million related to the Covid-19 pandemic.

In the first half of 2020, goodwill impairment charges of $578 million were recognised within the SURF and Conventional Business unit, the charges were driven by downward revisions in expected activity levels in the short to medium term.

Net loss
Net loss was $959 million for 1H 2020, compared to net income of $5 million in H1 2019. The year-on-year movement was primarily due to:

- the net operating loss recognised in the period

partly offset by:

- a tax credit in 1H 2020 of $13 million compared to a tax charge of $3 million in 1H 2020. The tax credit in 1H 2020 reflected limited tax relief available on the impairment charges recognised;
- net gain of $17 million on recognition of a receivable related to a business combination completed in prior years;
- net foreign currency losses in 1H 2020 of $5 million compared to net foreign currency losses of $31 million in 1H 2019.

Earnings per share
Diluted loss per share was $3.19 in 1H 2020 compared to diluted earnings per share of $0.03 in 1H 2019, calculated using a weighted average number of shares of 298 million and 313 million respectively. Adjusted diluted loss per share, which excludes the impact of the goodwill impairment charges was $1.24 in 1H 2020 compared to earnings per share of $0.03 in 1H 2019.

Cash and cash equivalents
Cash and cash equivalents were $483 million at 30 June 2020 compared to $398 million at 31 December 2019. The increase in cash and cash equivalents during the period was mainly attributable to:

- net cash generated from operating activities of $301 million

partially offset by:

- purchases of property, plant and equipment and intangible assets of $126 million;
- payments related to lease liabilities of $53 million; and
- repurchase of shares of $10 million.

Borrowings and lease liabilities
Borrowings decreased to $221 million at 30 June 2020 from $234 million at 31 December 2019 due to scheduled repayments. At 30 June 2020, lease liabilities were $292 million, a decrease of $53 million compared with 31 December 2019, the reduction was driven by payments made in the period, the reassessment of expected lease periods and lease terminations.

Business Unit Highlights

Second Quarter 2020

SURF and Conventional
Revenue for the second quarter was $625 million, a decrease of $217 million or 26% compared to Q2 2019.

During the quarter work progressed on the Burullus 9B project, offshore Egypt, the Jubilee Turret Remediation project, offshore Ghana, the Zinia project, offshore Angola, the Berri-Zuluf project, offshore Saudi Arabia, the Julimar Phase 2 project, offshore Australia, Mad Dog 2, King's Quay and Manuel projects in the US Gulf of Mexico, the Snorre, Ærfugl, Ærfugl Phase 2 and Nova projects, offshore Norway and the Arran and Penguins projects, offshore UK. In Brazil, work progressed on the Lapa NE project and there were high levels of PLSV utilisation under long-term contracts with Petrobras, except for *Seven Sun* where operations were adversely impacted by a Covid-19 outbreak onboard.

Net operating loss, excluding goodwill impairment charges, was $189 million in the quarter compared to net operating income of $60 million in Q2 2019. The net operating loss in the quarter was primarily driven by impairment charges of $195 million related to vessels, equipment and right-of-use assets. There was decreased conventional activity in Africa and the Middle East compared to Q2 2019, low levels of diving activity in the UK North Sea and consequent lower vessel utilisation. Net operating loss was adversely impacted by net incremental costs associated with the Covid-19 pandemic.

During the quarter, goodwill impairment charges of $578 million were recognised. The charges resulted from downward revisions in expected activity levels in the short to medium term.

Life of Field
Revenue for Q2 2020 was $62 million, a decrease of $4 million or 6% compared to Q2 2019. Net operating loss was $8 million in Q2 2020 compared to net operating loss of $3 million in Q2 2019. The net operating loss in the quarter was primarily driven by impairment charges of $14 million related to ROVs, equipment and right-of-use assets.

Renewables and Heavy Lifting

Revenue was $66 million in Q2 2020 compared to $49 million in Q2 2019. The increase in revenue was due to increased activity, particularly in relation to the Triton Knoll offshore wind farm project, offshore UK and the Yunlin project, offshore Taiwan. Net operating loss was $26 million in Q2 2020 compared to net operating loss of $10 million in Q2 2019 primarily due to vessel downtime and increased costs on the Triton Knoll project following an incident onboard *Seaway Strashnov*.

Corporate

Net operating loss of $130 million in Q2 2020 reflected restructuring costs of $104 million recognised in relation to the Group's resizing programme and impairment charges of $20 million related to property, plant and equipment.

Half Year 2020

SURF and Conventional

Revenue was $1.3 billion, a decrease of $338 million or 21% compared to 1H 2019.

During the half year ended June 30 2020 work progressed on the Burullus 9B project, offshore Egypt, the Jubilee Turret Remediation project, offshore Ghana, the Zinia project, offshore Angola, the Berri-Zuluf project, offshore Saudi Arabia, the Julimar Phase 2 project, offshore Australia, Mad Dog 2, King's Quay and Manuel projects in the US Gulf of Mexico, the Snorre, the Ærfugl, Ærfugl Phase 2 and Nova projects, offshore Norway and the Arran and Penguins projects, offshore UK. In Brazil, work progressed on the Lapa NE project and there were high levels of PLSV utilisation under long-term contracts with Petrobras, except for *Seven Sun* where operations were adversely impacted by a Covid-19 outbreak onboard.

Net operating loss, excluding goodwill impairment charges, was $215 million in the first half of 2020, compared to net operating income of $64 million in 1H 2019. The net operating loss in 1H 2020 was primarily driven by impairment charges of $195 million related to vessels, equipment and right-of-use assets. There was decreased conventional activity in Africa and the Middle East compared to 1H 2019, decreased diving activities in the North Sea and lower vessel utilisation. Net operating loss was adversely impacted by net incremental costs associated with the Covid-19 pandemic.

During the period, goodwill impairment charges of $578 million were recognised. The charges were driven by downwards revisions in expected activity levels in the short to medium term.

Life of Field

Revenue for 1H 2020 was $126 million, which was in line with 1H 2019. Net operating loss was $9 million in 1H 2020 which was in line with 1H 2019. The net operating loss in 1H 2020 included impairment charges of $14 million related to ROVs, equipment and right-of-use assets.

Renewables and Heavy Lifting

Revenue was $128 million in 1H 2020 compared to $103 million in 1H 2019. The increase in revenue was due to increased activity, particularly in relation to the Triton Knoll offshore wind farm project, offshore UK, and the Yunlin project, offshore Taiwan. Net operating loss was $38 million in 1H 2020 compared to net operating loss of $19 million in Q2 2019. The year-on-year increase in net operating loss was driven by increased costs on the Triton Knoll project following an incident onboard *Seaway Strashnov*.

Corporate

Net operating loss of $139 million in 1H 2020 reflected restructuring costs of $104 million recognised in relation to the Group's resizing programme and impairment charges of $20 million related to property, plant and equipment.

Asset Development and Activities

Vessel Utilisation

Active Vessel Utilisation for the quarter was 71% compared with 80% for Q2 2019. Total Vessel Utilisation was 64% compared to 75% in Q2 2019.

At 30 June 2020 there were 32 vessels in the fleet, comprising 28 active vessels, three stacked vessels and one vessel under construction. During the quarter two chartered vessels, *Skandi Acergy* and *Paul Candies*, were returned to their owners and left the fleet.

Asset Development

During the quarter, construction work continued on the Group's new reel-lay vessel, *Seven Vega*. The vessel is expected to commence operations in the third quarter of 2020.

Backlog

At 30 June 2020 backlog was $7.0 billion, an increase of $1.4 billion compared with 31 March 2020. Order intake totalling $2.0 billion, was recorded in the quarter. The level of escalations in the quarter was not significant and favourable foreign exchange movements of approximately $120 million were recognised. New awards included the Seagreen Offshore Wind Farm project, offshore UK, the Hollandse Kust Zuid 1-4 wind farm project, offshore the Netherlands, the Blythe and Vulcan Satellites Field Development project, offshore UK, and the Hod Field Development project, offshore Norway.

$4.3 billion of the backlog at 30 June 2020 related to the SURF and Conventional business unit (which included $0.4 billion related to long-term day-rate contracts for PLSVs in Brazil), $0.5 billion related to the Life of Field business unit and $2.2 billion related to the Renewables and Heavy Lifting business unit. $2.1 billion of the backlog is expected to be executed in 2020, $3.4 billion in 2021 and $1.5 billion in 2022 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Risks and uncertainties

The principal risks and uncertainties which could materially adversely impact the Group's reputation, operations and/or financial performance and position are noted on pages 20 to 26 of Subsea 7 S.A.'s 2019 Annual Report. The Executive Management Team has considered these principal risks and uncertainties and concluded that these have not changed significantly in the six month period to 30 June 2020.

The principal risks within health, safety, security, environmental and quality include the risk of a pandemic virus. During the first half of the year, management have been mitigating the impacts of the Covid-19 pandemic by monitoring health procedures and adhering to the guidance of world health organisations and local authorities. The Group has implemented revised working procedures to reduce the risks associated with Covid-19, including remote working, social distancing wherever possible and the use of additional personal protective equipment. The Group's onshore and offshore operations have been affected by the pandemic and significant additional costs have been incurred. However management consider that the mitigating measures that have been implemented reduce the operational risks for the Group.

The outlook for the global oil and gas market remains challenging. It arises from the dual impact of the low oil price environment and the Covid-19 pandemic. Global restructuring and cost reduction measures aimed at right-sizing the Group have been announced in the first quarter.

The Board of Directors will continue to monitor and respond to risks and uncertainties as they arise.

Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period 1 January 2020 to 30 June 2020 have been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the Group taken as a whole. We also confirm that, to the best of our knowledge, this report together with the Subsea 7 S.A. 2019 Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties facing the Group.

Subsea 7 S.A.
Condensed Consolidated Income Statement

(in $ millions)	Second Quarter Q2 2020 Unaudited	Second Quarter Q2 2019 Unaudited	Half Year 1H 2020 Unaudited	Half Year 1H 2019 Unaudited
Revenue	**754.0**	957.9	**1,504.6**	1,817.2
Operating expenses	**(1,031.2)**	(849.1)	**(1,768.0)**	(1,660.5)
Gross (loss)/profit	**(277.2)**	108.8	**(263.4)**	156.7
Administrative expenses	**(69.6)**	(61.4)	**(132.9)**	(119.8)
Impairment of goodwill	**(578.0)**	–	**(578.0)**	–
Share of net loss of associates and joint ventures	**(4.9)**	(2.5)	**(4.5)**	(2.2)
Net operating (loss)/income	**(929.7)**	44.9	**(978.8)**	34.7
Finance income	**1.1**	4.0	**2.6**	8.1
Other gains and losses	**(4.1)**	(5.7)	**15.7**	(22.6)
Finance costs	**(5.7)**	(7.1)	**(11.2)**	(13.0)
(Loss)/income before taxes	**(938.4)**	36.1	**(971.7)**	7.2
Taxation	**16.9**	(12.6)	**12.6**	(2.6)
Net (loss)/income	**(921.5)**	23.5	**(959.1)**	4.6
Net (loss)/income attributable to:				
Shareholders of the parent company	**(910.9)**	27.5	**(948.8)**	8.4
Non-controlling interests	**(10.6)**	(4.0)	**(10.3)**	(3.8)
	(921.5)	23.5	**(959.1)**	4.6

Earnings per share	**$ per share**	$ per share	**$ per share**	$ per share
Basic	**(3.06)**	0.09	**(3.19)**	0.03
Diluted[(a)]	**(3.06)**	0.09	**(3.19)**	0.03

(a) For the explanation and a reconciliation of diluted earnings per share refer to Note 7 'Earnings per share' to the Condensed Consolidated Financial Statements.

Subsea 7 S.A.

Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Second Quarter **Q2 2020 Unaudited**	Second Quarter Q2 2019 Unaudited	Half Year **1H 2020 Unaudited**	Half Year 1H 2019 Unaudited
Net (loss)/income	**(921.5)**	23.5	**(959.1)**	4.6
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	**13.1**	(38.1)	**(54.0)**	14.5
Reclassification adjustments relating to disposal of subsidiary	**–**	–	**–**	1.2
Tax relating to components of other comprehensive income which may be reclassified	**(1.4)**	(0.3)	**1.5**	(1.8)
Items that will not be reclassified to the income statement in subsequent periods:				
Tax relating to remeasurement gains on defined benefit pension schemes	**–**	(0.4)	**–**	(0.4)
Other comprehensive income/(loss)	**11.7**	(38.8)	**(52.5)**	13.5
Total comprehensive (loss)/income	**(909.8)**	(15.3)	**(1,011.6)**	18.1
Total comprehensive (loss)/income attributable to:				
Shareholders of the parent company	**(899.4)**	(11.3)	**(1,001.2)**	21.9
Non-controlling interests	**(10.4)**	(4.0)	**(10.4)**	(3.8)
	(909.8)	(15.3)	**(1,011.6)**	18.1

Subsea 7 S.A.
Condensed Consolidated Balance Sheet

	30 June 2020 Unaudited	31 Dec 2019 Audited
Assets		
Non-current assets		
Goodwill	**106.0**	704.6
Intangible assets	**47.5**	42.8
Property, plant and equipment	**4,115.7**	4,422.3
Right-of-use assets	**258.0**	327.8
Interest in associates and joint ventures	**24.5**	26.2
Advances and receivables	**26.0**	31.4
Derivative financial instruments	**22.5**	1.4
Construction contracts - assets	**12.1**	14.9
Other financial assets	**11.0**	8.1
Deferred tax assets	**34.4**	36.1
	4,657.7	5,615.6
Current assets		
Inventories	**28.5**	31.2
Trade and other receivables	**553.9**	604.7
Derivative financial instruments	**14.6**	4.1
Assets classified as held for sale	**15.0**	0.1
Construction contracts – assets	**348.7**	397.9
Other accrued income and prepaid expenses	**156.5**	168.6
Restricted cash	**7.2**	4.3
Cash and cash equivalents	**483.4**	397.7
	1,607.8	1,608.6
Total assets	**6,265.5**	7,224.2
Equity		
Issued share capital	**600.0**	600.0
Treasury shares	**(23.2)**	(14.0)
Paid in surplus	**2,509.5**	2,507.5
Translation reserve	**(642.4)**	(590.0)
Other reserves	**(19.8)**	(20.2)
Retained earnings	**1,890.3**	2,845.4
Equity attributable to shareholders of the parent company	**4,314.4**	5,328.7
Non-controlling interests	**29.2**	34.3
Total equity	**4,343.6**	5,363.0
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**196.7**	209.0
Non-current lease liabilities	**197.2**	251.2
Retirement benefit obligations	**15.4**	14.9
Deferred tax liabilities	**25.5**	34.9
Provisions	**47.0**	49.3
Contingent liability recognised	**5.8**	7.9
Derivative financial instruments	**18.1**	1.1
Other non-current liabilities	**19.4**	28.0
	525.1	596.3
Current liabilities		
Trade and other liabilities	**845.7**	858.3
Derivative financial instruments	**16.9**	7.0
Current tax liabilities	**27.7**	44.4
Current portion of borrowings	**24.6**	24.6
Current lease liabilities	**95.1**	94.0
Provisions	**149.0**	72.5
Construction contracts – liabilities	**236.4**	162.0
Deferred revenue	**1.4**	2.1
	1,396.8	1,264.9
Total liabilities	**1,921.9**	1,861.2
Total equity and liabilities	**6,265.5**	7,224.2

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2020

Unaudited (in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2020	**600.0**	**(14.0)**	**2,507.5**	**(590.0)**	**(20.2)**	**2,845.4**	**5,328.7**	**34.3**	**5,363.0**
Comprehensive loss									
Net loss	–	–	–	–	–	(948.8)	(948.8)	(10.3)	(959.1)
Foreign currency translation	–	–	–	(53.9)	–	–	(53.9)	(0.1)	(54.0)
Tax relating to components of other comprehensive income	–	–	–	1.5	–	–	1.5	–	1.5
Total comprehensive loss	**–**	**–**	**–**	**(52.4)**	**–**	**(948.8)**	**(1,001.2)**	**(10.4)**	**(1,011.6)**
Transactions with owners									
Shares repurchased	–	(9.8)	–	–	–	–	(9.8)	–	(9.8)
Share-based payments	–	–	2.0	–	–	–	2.0	–	2.0
Shares reallocated relating to share-based payments	–	0.6	–	–	–	–	0.6	–	0.6
Loss on reallocation of treasury shares	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Reclassification of deferred tax on defined benefit pension schemes	–	–	–	–	0.4	(0.4)	–	–	–
Reclassification adjustment relating to non-controlling interest	–	–	–	–	–	(5.3)	(5.3)	5.3	–
Total transactions with owners	**–**	**(9.2)**	**2.0**	**–**	**0.4**	**(6.3)**	**(13.1)**	**5.3**	**(7.8)**
Balance at 30 June 2020	**600.0**	**(23.2)**	**2,509.5**	**(642.4)**	**(19.8)**	**1,890.3**	**4,314.4**	**29.2**	**4,343.6**

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2019

Unaudited (in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	**654.7**	**(95.0)**	**2,826.6**	**(618.4)**	**(26.3)**	**2,941.8**	**5,683.4**	**38.4**	**5,721.8**
Comprehensive income/(loss)									
Net income/(loss)	–	–	–	–	–	8.4	8.4	(3.8)	4.6
Foreign currency translation	–	–	–	14.5	–	–	14.5	–	14.5
Disposal of subsidiary	–	–	–	1.2	–	–	1.2	–	1.2
Tax relating to components of other comprehensive income	–	–	–	(1.8)	(0.4)	–	(2.2)	–	(2.2)
Total comprehensive income/(loss)	**–**	**–**	**–**	**13.9**	**(0.4)**	**8.4**	**21.9**	**(3.8)**	**18.1**
Transactions with owners									
Shares repurchased	–	(224.7)	–	–	–	–	(224.7)	–	(224.7)
Share cancellation	(44.0)	259.9	(215.9)	–	–	–	–	–	–
Dividends declared	–	–	(54.6)	–	–	–	(54.6)	(5.0)	(59.6)
Share-based payments	–	–	2.4	–	–	–	2.4	–	2.4
Shares reallocated relating to share-based payments	–	0.2	–	–	–	–	0.2	–	0.2
Reclassification of remeasurement loss on defined benefit pension schemes	–	–	–	–	7.2	(7.2)	–	–	–
Loss on reallocation of treasury shares	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Total transactions with owners	**(44.0)**	**35.4**	**(268.1)**	**–**	**7.2**	**(7.4)**	**(276.9)**	**(5.0)**	**(281.9)**
Balance at 30 June 2019	**610.7**	**(59.6)**	**2,558.5**	**(604.5)**	**(19.5)**	**2,942.8**	**5,428.4**	**29.6**	**5,458.0**

Subsea 7 S.A.

Condensed Consolidated Cash Flow Statement

(in $ millions)	Half Year 1H 2020 Unaudited	1H 2019 Unaudited
Net cash generated from operating activities	**301.2**	129.7
Cash flows from investing activities		
Net proceeds from disposal of property, plant and equipment	**1.4**	(0.4)
Purchases of property, plant and equipment	**(113.1)**	(145.1)
Purchases of intangible assets	**(13.1)**	(4.0)
Net proceeds from recognition of assets related to business combinations – post measurement period	**16.6**	–
Loans to associates and joint ventures	**–**	(0.2)
Interest received	**2.6**	8.1
Acquisition of businesses (net of cash and borrowings acquired)	**–**	(8.0)
Proceeds from disposal of subsidiary	**–**	4.6
Proceeds from sale of other financial assets	**–**	21.4
Investment in other financial assets	**(2.9)**	–
Net cash used in investing activities	**(108.5)**	(123.6)
Cash flows from financing activities		
Interest paid	**(6.8)**	(5.8)
Repayment of borrowings	**(12.3)**	(13.0)
Cost of share repurchases	**(9.8)**	(224.7)
Payments related to lease liabilities	**(53.3)**	(53.5)
Dividends paid to equity shareholders of the parent company	**–**	(53.8)
Dividends paid to non-controlling interests	**(9.7)**	(0.4)
Net cash used in financing activities	**(91.9)**	(351.2)
Net increase/(decrease) in cash and cash equivalents	**100.8**	(345.1)
Cash and cash equivalents at beginning of year	**397.7**	764.9
Increase in restricted cash	**(2.9)**	–
Effect of foreign exchange rate movements on cash and cash equivalents	**(12.2)**	0.3
Cash and cash equivalents at end of period	**483.4**	420.1

1. General information

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on the Oslo Børs and over-the-counter as American Depositary Receipts (ADRs) in the US. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg. The Condensed Consolidated Financial Statements were authorised for issue by the Board of Directors on 28 July 2020.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period from 1 January 2020 to 30 June 2020 for Subsea 7 S.A. have been prepared on a going concern basis and in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

The Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Condensed Consolidated Financial Statements are unaudited.

As the global economy remains impacted by the unprecedented global health and economic crisis following the outbreak of the Covid-19 pandemic, management continued during Q2 2020 to monitor the potential operational and financial impacts for the Group. The situation remains uncertain in terms of timescale and impact. Management have assessed the following areas which could impact the Group:

Going concern

Management consider that the going concern assumption remains appropriate for the Group. Despite the uncertainty regarding the potential impacts of the Covid-19 pandemic and the associated imbalance in the energy market, management consider that there are no significant doubts over the application of the going concern assumption and no disclosable material uncertainties which cast doubt upon the Group's ability to continue as a going concern.

Revenue recognition and backlog

The impact upon the Group's revenue and backlog has been reviewed by management and there were no significant impacts on the total backlog recognised due to the Covid-19 pandemic. It is expected there will be rephasing of the timing of execution on certain projects.

Onerous contract provisions

Onerous contract provisions were assessed in light of the requirements of IFRS 15 'Revenue from Contracts with Customers' and IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Certain inefficiencies were identified as a direct consequence of additional costs incurred, and expected to be incurred, as a result of the Covid-19 pandemic. Management concluded that these costs will not contribute to the overall progression of contracts and are being recognised as incurred.

Credit impairment and expected credit losses

During Q2 2020, no significant credit impairments were recognised as a result of the Covid-19 pandemic. The Group's expected credit loss provisions were reviewed and individual assessments were undertaken where appropriate.

Asset impairment, including goodwill and right-of-use assets

Management performed an impairment review during Q2 2020 in order to assess the impact of the Covid-19 pandemic and the challenges facing the energy sector. Impairments were recognised in relation to goodwill, property, plant and equipment and right-of-use assets. Further details are shown within notes 10 and note 11 of the Condensed Consolidated Financial Statements.

Lease liability reassessment

During Q2 2020, management performed a reassessment of the Group's long-term chartered vessels as a result of the expected downturn in activity levels due to the Covid-19 pandemic and delayed project awards. Certain lease liabilities, and associated right-of-use asset balances, were reduced as a consequence of renewal options now not expected to be exercised.

Fair value measurement

During the period, foreign currency exchange rates fluctuated significantly, impacted by market volatility resulting from the Covid-19 pandemic. Management consider that foreign currency exchange rates applied represented fair value in relation to quoted transactions such as forward exchange contracts at the measurement date of 30 June 2020.

3. Accounting policies

Basis of accounting

The accounting policies adopted in the preparation of the Condensed Consolidated Financial Statements are consistent with the Consolidated Financial Statements for the year ended 31 December 2019.

No new International Financial Reporting Standards (IFRSs) were adopted by the Group for the financial year beginning 1 January 2020. Amendments to existing IFRSs, issued with an effective date of 1 January 2020 but not yet endorsed by the EU, will be adopted by the Group following their adoption by the EU.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in the Consolidated Financial Statements for the year ended 31 December 2019, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Management makes accounting judgements on the following aspects of the business as described in full in the Consolidated Financial Statements for the year ended 31 December 2019:

- Revenue recognition on long-term construction contracts and renewables contracts
- Revenue recognition on variation orders and claims
- Allocation of goodwill to cash-generating units (CGUs)
- Goodwill carrying amount
- Property, plant and equipment
- Recognition of provisions and disclosure of contingent liabilities
- Taxation
- Measurement of other intangibles acquired on business combinations
- Measurement of contingent consideration on business combinations

5. Seasonality

A significant portion of the Group's revenue is generated from work performed offshore. During certain periods of the year, the Group may be affected by adverse weather conditions such as hurricanes, tropical storms and rough seas, which may cause delays. In the Northern Hemisphere seasonally adverse weather occurs typically during the period from October to March, whereas in the Southern Hemisphere it typically occurs during the period from May to September, depending on project execution, each can affect the Group's offshore operations. Periods of adverse weather conditions usually result in low levels of activity.

6. Segment information

For management and reporting purposes, the Group is organised into four business units: SURF and Conventional, Life of Field, Renewables and Heavy Lifting and Corporate. These operating segments are defined as follows:

SURF and Conventional

The SURF and Conventional business unit includes:

- Subsea Umbilicals, Risers and Flowlines (SURF) activities related to the engineering, procurement, installation and commissioning of highly complex systems offshore, including the long-term PLSV contracts in Brazil; and
- Conventional services including the fabrication, installation, extension and refurbishment of fixed and floating platforms and associated pipelines in shallow water environments.

This segment includes costs, including depreciation, amortisation and impairment charges, related to owned and long-term leased vessels, equipment and offshore personnel deployed on SURF and Conventional activities.

Life of Field

The Life of Field business unit includes activities associated with the provision of inspection, repair and maintenance (IRM) services, integrity management of subsea infrastructure and remote intervention support. This segment includes costs, including depreciation, amortisation and impairment charges, related to owned and long-term leased vessels, equipment and offshore personnel deployed on Life of Field activities.

Renewables and Heavy Lifting

The Renewables and Heavy Lifting business unit includes activities related to three specialist segments of the offshore energy market: the installation of offshore wind turbine foundations and inner-array cables, heavy lifting operations for oil and gas structures, and the decommissioning of redundant offshore structures. This segment includes costs, including depreciation, amortisation and impairment charges, related to owned and long-term leased vessels, equipment and offshore personnel deployed on Renewables and Heavy Lifting activities.

Corporate

The Corporate business unit includes group-wide activities, and associated costs, including captive insurance activities, operational support, corporate services and costs associated with discrete events such as restructuring. A significant portion of the Corporate business unit's costs are allocated to the other operating segments based on a percentage of their external revenue.

6. Segment information (continued)

Summarised financial information relating to each operating segment is as follows:

For the three months ended 30 June 2020

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	**511.3**	**1.9**	**65.4**	**–**	**578.6**
Day-rate projects	**114.1**	**60.4**	**0.9**	**–**	**175.4**
	625.4	**62.3**	**66.3**	**–**	**754.0**
Net operating loss excluding goodwill impairment charges	**(188.6)**	**(7.6)**	**(26.0)**	**(129.5)**	**(351.7)**
Impairment of goodwill	**(578.0)**	**–**	**–**	**–**	**(578.0)**
Net operating loss	**(766.6)**	**(7.6)**	**(26.0)**	**(129.5)**	**(929.7)**
Finance income					**1.1**
Other gains and losses					**(4.1)**
Finance costs					**(5.7)**
Loss before taxes					**(938.4)**

For the three months ended 30 June 2019

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	674.4	1.5	49.4	–	725.3
Day-rate projects	167.8	64.8	–	–	232.6
	842.2	66.3	49.4	–	957.9
Net operating income/(loss)	59.7	(3.1)	(9.9)	(1.8)	44.9
Finance income					4.0
Other gains and losses					(5.7)
Finance costs					(7.1)
Income before taxes					36.1

For the six months ended 30 June 2020

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	**1,003.4**	**3.9**	**127.3**	**–**	**1,134.6**
Day-rate projects	**247.3**	**121.7**	**1.0**	**–**	**370.0**
	1,250.7	**125.6**	**128.3**	**–**	**1,504.6**
Net operating loss excluding goodwill impairment charges	**(215.3)**	**(8.5)**	**(38.4)**	**(138.6)**	**(400.8)**
Impairment of goodwill	**(578.0)**	**–**	**–**	**–**	**(578.0)**
Net operating loss	**(793.3)**	**(8.5)**	**(38.4)**	**(138.6)**	**(978.8)**
Finance income					**2.6**
Other gains and losses					**15.7**
Finance costs					**(11.2)**
Loss before taxes					**(971.7)**

For the six months ended 30 June 2019

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	1,261.2	1.5	102.6	–	1,365.3
Day-rate projects	327.5	124.4	–	–	451.9
	1,588.7	125.9	102.6	–	1,817.2
Net operating income/(loss)	64.1	(6.3)	(19.1)	(4.0)	34.7
Finance income					8.1
Other gains and losses					(22.6)
Finance costs					(13.0)
Income before taxes					7.2

7. Earnings per share

Basic and diluted earnings per share

Basic earnings/(loss) per share is calculated by dividing the net income/(loss) attributable to shareholders of the parent company by the weighted average number of common shares in issue during the period, excluding common shares purchased by the Group and held as treasury shares.

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive common shares. The net income/(loss) and share data used in the calculation of basic and diluted earnings/(loss) per share were as follows:

	Second Quarter		Half Year	
For the period (in $ millions)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Net (loss)/income attributable to shareholders of the parent company	**(910.9)**	27.5	**(948.8)**	8.4
Earnings used in the calculation of diluted earnings/(loss) per share	**(910.9)**	27.5	**(948.8)**	8.4

	Second Quarter		Half Year	
For the period (number of shares)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Weighted average number of common shares used in the calculation of basic earnings/(loss) per share	**297,210,554**	307,308,254	**297,867,931**	311,412,754
Share options and performance shares	**–**	1,178,611	**–**	1,163,218
Weighted average number of common shares used in the calculation of diluted earnings/(loss) per share	**297,210,554**	308,486,865	**297,867,931**	312,575,972

	Second Quarter		Half Year	
For the period (in $ per share)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Basic (loss)/earnings per share	**(3.06)**	0.09	**(3.19)**	0.03
Diluted (loss)/earnings per share	**(3.06)**	0.09	**(3.19)**	0.03

The following shares that could potentially dilute earnings/(loss) per share were excluded from the calculation of diluted earnings/(loss) per share due to being anti-dilutive:

	Second Quarter		Half Year	
For the period (number of shares)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Share options and performance shares	**1,793,061**	788,965	**1,795,272**	808,094

Adjusted diluted earnings per share

Adjusted diluted earnings/(loss) per share represents diluted earnings/(loss) per share excluding the goodwill impairment charges of $578.0 million (2019: $nil). The net income/(loss) and share data used in the calculation of Adjusted diluted earnings/(loss) per shares were as follows:

	Second Quarter		Half Year	
For the period (in $ millions)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Net (loss)/income attributable to shareholders of the parent company	**(910.9)**	27.5	**(948.8)**	8.4
Impairment of goodwill	**578.0**	–	**578.0**	–
Earnings used in the calculation of Adjusted diluted earnings/(loss) per share	**(332.9)**	27.5	**(370.8)**	8.4

	Second Quarter		Half Year	
For the period (number of shares)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Weighted average number of common shares used in the calculation of basic earnings/(loss) per share	**297,210,554**	307,308,254	**297,867,931**	311,412,754
Share options and performance shares	**–**	1,178,611	**–**	1,163,218
Weighted average number of common shares used in the calculation of Adjusted diluted earnings/(loss) per share	**297,210,554**	308,486,865	**297,867,931**	312,575,972

	Second Quarter		Half Year	
For the period (in $ per share)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Adjusted diluted (loss)/earnings per share	**(1.12)**	0.09	**(1.24)**	0.03

8. Adjusted EBITDA and Adjusted EBITDA margin

Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of the Group's performance either period-on-period or with other businesses. The Group defines Adjusted EBITDA as net income adjusted to exclude depreciation and amortisation costs, including amortisation of prepaid mobilisation expenses and amortisation of intangible assets, impairment charges or impairment reversals, finance income, remeasurement gains and losses on business combinations, other gains and losses (including foreign exchange gains and losses, gains on disposal of subsidiaries, gains and losses resulting from remeasurement of contingent consideration, gains on distributions and bargain purchase gains on business combinations), finance costs and taxation. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue, expressed as a percentage.

The items excluded from Adjusted EBITDA represent items which are individually or collectively material but which are not considered representative of the performance of the business during the periods presented. Other gains and losses principally relate to disposals of investments, property, plant and equipment and net foreign exchange gains or losses. Impairments of assets represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future or their sale.

Adjusted EBITDA and Adjusted EBITDA margin are not recognised as a measurement of performance under IFRS as adopted by the EU. These measures exclude items that can have a significant effect on the Group's income or loss and therefore should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with IFRS) as a measure of the Group's operating results or cash flows from operations (as determined in accordance with IFRS) as a measure of the Group's liquidity.

Management believes that Adjusted EBITDA and Adjusted EBITDA margin are important indicators of the operational strength and the performance of the business. These non-IFRS measures provide management with a meaningful comparative for its business units, as they eliminate the effects of financing, depreciation and taxation. Management believes that the presentation of Adjusted EBITDA is also useful as it is similar to measures used by companies within Subsea 7's peer group and therefore believes it to be a helpful calculation for those evaluating companies within Subsea 7's industry. Adjusted EBITDA margin may also be a useful ratio to compare performance to its competitors and is widely used by shareholders and analysts following the Group's performance. Notwithstanding the foregoing, Adjusted EBITDA and Adjusted EBITDA margin as presented by the Group may not be comparable to similarly titled measures reported by other companies.

Reconciliation of net operating (loss)/income to Adjusted EBITDA and Adjusted EBITDA margin:

	Second Quarter		Half Year	
For the period (in $ millions)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Net operating (loss)/income	**(929.7)**	44.9	**(978.8)**	34.7
Depreciation, amortisation and mobilisation	**113.2**	125.8	**230.3**	247.1
Impairment of goodwill	**578.0**	–	**578.0**	–
Impairment of property, plant and equipment	**212.5**	–	**212.5**	–
Impairment of right-of-use assets	**16.7**	–	**16.7**	–
Adjusted EBITDA	**(9.3)**	170.7	**58.7**	281.8
Revenue	**754.0**	957.9	**1,504.6**	1,817.2
Adjusted EBITDA margin	**(1.2%)**	17.8%	**3.9%**	15.5%

Reconciliation of net (loss)/income to Adjusted EBITDA and Adjusted EBITDA margin:

	Second Quarter		Half Year	
For the period (in $ millions)	**Q2 2020 Unaudited**	Q2 2019 Unaudited	**1H 2020 Unaudited**	1H 2019 Unaudited
Net (loss)/income	**(921.5)**	23.5	**(959.1)**	4.6
Depreciation, amortisation and mobilisation	**113.2**	125.8	**230.3**	247.1
Impairment of goodwill	**578.0**	–	**578.0**	–
Impairment of property, plant and equipment	**212.5**	–	**212.5**	–
Impairment of right-of-use assets	**16.7**	–	**16.7**	–
Finance income	**(1.1)**	(4.0)	**(2.6)**	(8.1)
Other gains and losses	**4.1**	5.7	**(15.7)**	22.6
Finance costs	**5.7**	7.1	**11.2**	13.0
Taxation	**(16.9)**	12.6	**(12.6)**	2.6
Adjusted EBITDA	**(9.3)**	170.7	**58.7**	281.8
Revenue	**754.0**	957.9	**1,504.6**	1,817.2
Adjusted EBITDA margin	**(1.2%)**	17.8%	**3.9%**	15.5%

9. Cost reduction programme

In April 2020, the Group announced that in view of the difficult business and economic conditions prevailing in the oil and gas market and the consequent decline in workload, cost reduction measures would be implemented including a resizing of the fleet and workforce.

In the second quarter, a restructuring charge of $104.3 million was recognised in relation to the Group's resizing and cost reduction programme, of which $86.3 million was recognised within operating expenses, $14.0 million within administrative expenses and $4.0 million within share of net loss of associates and joint ventures. The restructuring charge is mainly related to: personnel costs, with the associated cash outflows expected during the second half of 2020; costs in respect of vessel charter termination and provisions against certain receivable balances which management consider will not be recoverable following the decision to reduce operations in specific geographical locations. The full amount of these charges was recognised in the Group's Corporate operating segment.

10. Goodwill

The movement in goodwill during the period was as follows:

	Half Year	
(in $ millions)	**1H 2020 Unaudited**	1H 2019 Unaudited
At year beginning	**704.6**	751.3
Adjustments to identifiable net assets at fair value subsequent to initial recognition	**(0.1)**	–
Acquired in business combination	**–**	25.6
Impairment charges	**(578.0)**	–
Exchange differences	**(20.5)**	2.3
At period end	**106.0**	779.2

Impairment review

Management performed an impairment review during Q2 2020. Management considered the potential impact of the Covid-19 pandemic and the challenges facing the energy sector. This resulted in a downward revision of forecast levels of activity in the short and medium term compared to the forecasts approved by the Executive Management Team for use in the Group's annual impairment review in 2019.

The recoverable amounts of cash-generating units (CGUs) were determined based on a value-in-use calculation using pre-tax risk adjusted cash flow projections covering a five-year period from 2020 to 2024. Cash flows beyond this five-year period were extrapolated, using a 2.0% (2019 annual review: 2.0%) growth rate to determine terminal value. The pre-tax discount rate applied to the risk adjusted cash flow projections was 9.8% (2019 annual review: 10.2%). Following the review, impairment charges of $578.0 million were recognised in the Consolidated Income Statement.

The carrying amounts of goodwill allocated to CGUs at 30 June 2020 and 31 December 2019 were as follows:

At (in $ millions)	**2020 30 Jun**	2019 31 Dec
Africa	**–**	394.1
Asia Pacific and Middle East	**–**	14.9
Life of Field	**79.4**	82.2
Norway	**–**	104.8
Pipelines Group	**–**	14.8
UK and Canada	**–**	66.6
Xodus	**26.6**	27.2
Total	**106.0**	704.6

Management will further review the carrying amounts of goodwill allocated to the Life of Field CGU, which includes goodwill in relation to wholly owned subsidiary, 4Subsea AS, acquired by the Group during 2019, and the Xodus CGU during the Group's annual impairment review in the fourth quarter of 2020.

11. Impairment of property, plant and equipment and right-of-use assets

During the second quarter, driven by the impact of the Covid-19 pandemic and the challenges facing the energy sector, management performed an impairment review of property, plant and equipment and right-of-use assets.

Impairment charges totalling $212.5 million were recognised in relation to property, plant and equipment, mainly related to older vessels or vessels with low forecast utilisation. The charges were recognised in the Consolidated Income Statement within operating expenses.

Impairment charges totalling $16.7 million were recognised in relation to right-of-use assets, with $13.5 million recognised within operating expenses and $3.2 million within administrative expenses.

Management will further review the carrying amounts in relation to property, plant and equipment and right-of-use assets during the annual impairment review in the fourth quarter of 2020.

12. Facilities

Euro Commercial Paper programme

During April 2020 the Group finalised a Euro Commercial Paper programme equivalent to $745.1 million in order to diversify the Group's sources of liquidity.

Multi-currency revolving credit and guarantee facility

In June 2020, the Group extended the maturity date of this facility from September 2021 to September 2023.

13. Treasury shares

During the second quarter, no shares were used to satisfy share-based awards. At 30 June 2020, the Group directly held 2,789,446 shares (Q1 2020: 2,768,446) as treasury shares, representing 0.93% (Q1 2020: 0.92%) of the total number of issued shares.

The movement in treasury shares during the period was as follows:

	30 June 2020 Number of shares	**30 June 2020 in $ millions**	30 June 2019 Number of shares	30 June 2019 in $ millions
At year beginning	**1,212,860**	**14.0**	8,240,024	95.0
Shares repurchased	**1,627,968**	**9.8**	18,923,338	224.7
Share cancellation	**–**	**–**	(22,000,000)	(259.9)
Shares reallocated relating to share-based payments	**(51,382)**	**(0.6)**	(7,644)	(0.2)
At period end	**2,789,446**	**23.2**	5,155,718	59.6

14. Share repurchase programme

During the second quarter, 21,000 shares were repurchased for a total consideration of $0.1 million under the Group's share repurchase programme authorised on 24 July 2019. At 30 June 2020, the Group has repurchased a cumulative 1,627,968 shares for a total consideration of $9.8 million under this programme.

15. Commitments and contingent liabilities

Commitments

At 30 June 2020, the Group had significant contractual commitments totalling $22.2 million, including commitments related to the construction of *Seven Vega*, a new reel-lay vessel.

Contingent liabilities not recognised in the Consolidated Balance Sheet

The Group is subject to tax audits and receives tax assessments in a number of jurisdictions where it has, or has had, operations. The estimation of the ultimate outcome of these audits and disputed tax assessments is complex and subjective. The likely outcome of the audits and associated cash outflow, if any, may be impacted by technical uncertainty and the availability of supporting documentation.

One of the amounts contested by the Group is in respect of an audit by Rivers State, Nigeria, of the Group's Nigerian operations in the years 2010 to 2014, with particular regard to payroll taxes for offshore personnel. At 30 June 2020, there was a contingent liability relating to assessments received from Rivers State in respect of such personnel, which totalled NGN 34,190 million, equivalent to $88.2 million (31 December 2019: NGN 34,190 million, equivalent to $94.1 million). The Group has challenged the assessments and is currently involved in court proceedings in Nigeria to release assets sequestered by Rivers State authorities in respect of one of the assessments totalling NGN 3,352 million, equivalent to $8.6 million (31 December 2019: NGN 3,352 million, equivalent to $9.2 million). The Group does not believe the likelihood of payments is probable and no provision has been recognised in the Consolidated Balance Sheet in respect of the assessments resulting from the Rivers State audits.

Between 2009 and 2018, the Group's Brazilian businesses were audited and formally assessed for ICMS and federal taxes (including import duty) by the Brazilian state and federal tax authorities. The amount assessed, including penalties and interest, at 30 June 2020 amounted to BRL 852.6 million, equivalent to $158.9 million (31 December 2019: BRL 847.7 million, equivalent to $207.6 million). The Group has challenged these assessments. A contingent liability has been disclosed for the total amounts assessed as the disclosure criteria have been met however the Group does not believe that the likelihood of payment is probable.

During 2018 and 2019, the Group's Brazilian business received a number of labour claims. The amount assessed at 30 June 2020 amounted to BRL 237.3 million, equivalent to $44.3 million (31 December 2019: BRL 237.8 million, equivalent to $58.2 million). The Group has challenged these claims. A contingent liability has been disclosed for BRL193.0 million, equivalent to $36.0 million as the disclosure criteria have been met (31 December 2019: BRL193.3 million, equivalent to $47.3 million), however, the Group does not believe that the likelihood of payment is probable. At 30 June 2020, a provision of BRL 44.3 million, equivalent to $8.3 million was recognised within the Consolidated Balance Sheet (31 December 2019: BRL 44.5 million, equivalent to $10.9 million), as the IAS 37 'Provisions, contingent liabilities and contingent assets' recognition criteria were met.

Contingent liabilities recognised in the Consolidated Balance Sheet

As part of accounting for the business combination with Subsea 7 Inc., IFRS 3 'Business combinations' (IFRS 3) required the Group to recognise as a provision, as of the acquisition date, the fair value of contingent liabilities assumed if there was a present obligation that arose from past events, even where payment was not probable. The value of the provision recognised within the Consolidated Balance Sheet at 30 June 2020 was $5.3 million (31 December 2019: $6.9 million). While complying with the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

As part of the accounting for the business combination of Pioneer Lining Technology Limited, IFRS 3 required the Group to recognise a provision in respect of contingent consideration payable to a third party following the acquisition of intangible assets in 2009. The value of the provision recognised within the Consolidated Balance Sheet at 30 June 2020 was $0.5 million (31 December 2019: $1.0 million). While complying with the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

16. Cash flow from operating activities

For the period ended (in $ millions)	Half Year 1H 2020 Unaudited	1H 2019 Unaudited
Cash flow from operating activities:		
(Loss)/income before taxes	**(971.7)**	7.2
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**170.9**	185.2
Impairment of property, plant and equipment	**212.5**	–
Amortisation of right-of-use assets	**46.9**	51.4
Impairment of right-of-use assets	**16.7**	–
Amortisation of intangible assets	**6.2**	5.8
Amortisation of mobilisation costs	**6.3**	4.7
Impairment of goodwill	**578.0**	–
Adjustments for investing and financing items:		
Share of net income of associates and joint ventures	**4.5**	2.2
Finance income	**(2.6)**	(8.1)
Gain on disposal of other financial assets measured at fair value through profit or loss	**–**	(5.5)
Remeasurement loss on business combination	**–**	1.1
Gain on disposal of subsidiary	**–**	(4.3)
Gain on recognition of assets related to business combinations – post measurement period	**(15.5)**	–
(Profit)/loss on disposal of property, plant and equipment	**(0.5)**	0.2
Gain on maturity of lease liabilities	**(0.9)**	–
Finance costs	**11.2**	13.0
Adjustments for equity items:		
Reclassification of exchange differences relating to the disposal of a subsidiary	**–**	1.2
Share-based payments	**2.0**	2.4
	64.0	256.5
Changes in operating assets and liabilities:		
Decrease/(increase) in inventories	**1.8**	(4.5)
Decrease/(increase) in operating receivables	**54.4**	(16.2)
Increase/(decrease) in operating liabilities	**197.3**	(36.3)
	253.5	(57.0)
Income taxes paid	**(16.3)**	(69.8)
Net cash generated from operating activities	**301.2**	129.7

17. Fair value and financial instruments

The carrying values of the Group's financial assets and financial liabilities recorded at amortised cost in the Condensed Consolidated Financial Statements approximate their fair values.

Borrowings – senior secured facility

The fair value of the senior secured facility is determined by matching the maturity profile of the amounts utilised under the facility to market interest rates available to the Group for borrowings with similar security, maturity and repayment profiles. At 30 June 2020 interest charged under the facility is representative of market rates currently available to the Group and therefore the carrying amount approximates fair value.

Fair value measurements

Fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market date (unobservable inputs).

Recurring and non-recurring fair value measurements

Recurring fair value measurements are those that IFRS require at the end of each reporting period and non-recurring fair value measurements are those that IFRS require or permit in particular circumstances.

Assets and liabilities which are measured at fair value in the Condensed Consolidated Balance Sheet and their level in the fair value hierarchy were as follows:

At (in $ millions)	**2020 30 Jun Level 1**	**2020 30 Jun Level 2**	**2020 30 Jun Level 3**	2019 31 Dec Level 1	2019 31 Dec Level 2	2019 31 Dec Level 3
Recurring fair value measurements						
Financial assets measured at fair value through profit or loss:						
Derivative instruments	**–**	**37.1**	**–**	–	5.5	–
Financial liabilities measured at fair value through profit or loss:						
Derivative instruments	**–**	**(35.0)**	**–**	–	(8.1)	–
Contingent consideration	**–**	**–**	**(8.7)**	–	–	(11.5)

During the period ended 30 June 2020 there were no transfers between levels of the fair value hierarchy. The Group accounts for transfers between levels of the fair value hierarchy from the date of the event or change in circumstance that caused the transfer.

Fair value techniques and inputs

Financial assets and liabilities mandatorily measured at fair value through profit or loss

The Group's financial assets and liabilities measured at fair value through profit or loss comprised:

- Forward foreign exchange contracts and embedded derivatives
  The fair value of outstanding forward foreign exchange contracts and embedded derivatives were calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- Contingent consideration
  The fair value of contingent consideration is determined based on current expectations of the achievement of specific targets and milestones and calculated using the discounted cash flow method and unobservable inputs.

Financial assets measured at fair value through other comprehensive income and designated as such at initial recognition

The Group's financial assets measured at fair value through other comprehensive income and designated as such at initial recognition comprised:

- Other financial assets
  Strategic financial investments in unlisted companies are disclosed as other financial assets within non-current assets on the Consolidated Balance Sheet. The Group has concluded that due to their nature, in the case of each investment, there is a wide range of possible fair value measurements with insufficient recent information available to accurately measure fair value. As a result the investments are carried at cost.