Subsea 7 S.A. Announces Third Quarter 2020 Results

Luxembourg – 12 November 2020 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY, ISIN: LU0075646355) announced today results for the third quarter which ended 30 September 2020.

Third quarter summary

- EBITDA of $114 million in the quarter after incurring net costs of $20 million relating to Covid-19, equating to a margin of 12%
- Net cash generated from operations of $122 million in the quarter and $423 million in the first nine months of the year, despite challenging conditions
- Anticipated annualised cash cost savings of approximately $400 million by the end of 2021
- Extensions worth $180 million in total for three contracts for pipelay support vessels (PLSVs) in Brazil
- Resilient backlog of $6.8 billion at quarter end, of which 31% in Renewables, with $1.2 billion expected to be executed in the remainder of 2020 and $3.6 billion in 2021
- Conversion of *Seven Phoenix* under way, to enhance our market leadership in inner-array cable lay for the offshore wind sector, and to accelerate our strategy for proactive participation in Energy Transition

	Third Quarter		Nine Months Ended	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Revenue	**947**	951	**2,452**	2,768
Adjusted EBITDA[(a), (b)]	**114**	181	**172**	462
Adjusted EBITDA margin[(a), (b)]	**12%**	19%	**7%**	17%
Net operating income/(loss) excluding goodwill impairment charges	**7**	59	**(394)**	93
Goodwill impairment charges	**–**	–	**(578)**	–
Net operating income/(loss)	**7**	59	**(972)**	93
Net (loss)/income	**(43)**	42	**(1,002)**	47
Earnings per share – in $ per share				
Basic	**(0.14)**	0.15	**(3.33)**	0.17
Diluted[(c)]	**(0.14)**	0.15	**(3.33)**	0.17
Adjusted diluted[(c)]	**(0.14)**	0.15	**(1.38)**	0.17

At (in $ millions)	**30 Sep 2020 Unaudited**	30 June 2020 Unaudited
Backlog - unaudited[(d)]	**6,806**	7,021
Cash and cash equivalents	**542**	483
Borrowings	**(215)**	(221)
Net cash excluding lease liabilities [(e)]	**326**	262
Net cash/(debt) including lease liabilities[(e)]	**53**	(30)

(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) During the nine months ended 30 September 2020 restructuring charges of $99 million were recognised, adversely impacting Adjusted EBITDA and Adjusted EBITDA margin.

(c) 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.

(d) Backlog at 30 September 2020 and 30 June 2020 is unaudited and is a non-IFRS measure.

(e) Net cash is a non-IFRS measure and is defined as cash and cash equivalents less borrowings.

John Evans, Chief Executive Officer, said:

In the third quarter of 2020 Subsea 7 reported Adjusted EBITDA of $114 million, down 37% year-on-year, reflecting reduced activity within the SURF and Conventional business unit, client delays affecting certain Renewables projects in Asia and the impact of the Covid-19 pandemic. The Group generated positive net cash flow and we ended the quarter with a net cash position of $53 million. This balance sheet strength provides a solid foundation from which to preserve the competitiveness of our oil and gas businesses through the current downturn, while advancing our strategy of proactive participation in the Energy Transition.

Accelerating growth in Renewables

Marking a milestone in the growth of our Renewables business, in September we announced an investment of $25 million to convert *Seven Phoenix* for offshore wind cable lay work. Our existing cable lay vessel, *Seaway Aimery*, is projected to be fully utilised through 2022 and the *Seven Phoenix* investment is supported by a backlog of firm work. Conversion is under way and the vessel is due to re-join the active fleet in Q2 2021, enhancing our position as a leading service provider in the offshore wind market.

Strong cash generation and continued capital discipline

Despite the challenging conditions, in the first nine months of 2020 Subsea 7 generated net cash flow of $166 million, resulting in a net cash position of $53 million after deducting lease liabilities of $273 million. Liquidity remains strong with $542 million of cash and cash equivalents, alongside a revolving credit facility of $656 million and a Euro Commercial Paper programme equivalent to $800 million, both of which are unutilised.

Our capital allocation strategy remains unchanged and is focused on three objectives: protecting the balance sheet, reinvesting in the business in a disciplined manner, and returning excess cash to shareholders. Particularly in today's uncertain environment, a strong balance sheet provides us with the financial stability to ensure the competitiveness of our oil and gas businesses, while affording us the flexibility to capture growth opportunities in the Renewables market. Investment in technology and digitalisation remains a priority.

Update on the cost reduction plan

To address an anticipated reduction in activity in our oil and gas businesses, in April this year we announced plans to cut our active fleet by up to ten vessels and our headcount by approximately 3,000 people, in order to deliver annualised operating cash savings of $400 million by the second quarter 2021. We now anticipate meeting our cost saving target by the end of 2021 due to re-phasing of project execution.

Third quarter financial review

Third quarter revenue of $947 million was broadly unchanged compared to the prior year period, but was an improvement of approximately 26% compared to the first two quarters of 2020, reflecting higher levels of activity in Norway and the Gulf of Mexico, offset by continued low activity in Africa and the Middle East. Adjusted EBITDA of $114 million was adversely impacted by net costs associated with Covid-19 of approximately $20 million and reduced activity levels in SURF and Conventional. The net loss for the quarter was $43 million.

During the quarter, net cash generated from operations was $122 million including a favourable movement in working capital partly due to advance payments on certain projects. Capital expenditure was approximately $20 million. Cash and cash equivalents increased by $58 million. The Group ended the quarter with net cash excluding leases liabilities of $326 million, equating to net cash of $53 million including lease liabilities of $273 million.

In the third quarter of 2020, Subsea 7 booked new orders of approximately $150 million and escalations of approximately $500 million, including extensions worth $180 million in total for three pipelay support vessel (PLSV) contracts in Brazil. Backlog at the end of September was $6.8 billion, of which $1.2 billion is expected to be executed in the remainder of 2020 and $3.6 billion in 2021.

Third quarter operational review

The SURF and Conventional business unit made good progress on several projects in the third quarter. In Norway, *Seven Arctic* completed the last offshore phase of the Snorre Expansion project, while *Seven Oceans* installed an Electrically Heat-Traced Flowline at Ærfugl. Front-end engineering continued for Ormen Lange. In the UK, *Seven Borealis* completed installation activities for the Arran project, before transiting to West Africa to work on the Jubilee Turret Remediation and Zinia projects offshore Ghana and Angola respectively. Fabrication activity continued for the Sangomar project in Senegal. In Brazil, the four pipelay support vessels achieved high utilisation, while *Seven Seas* continued offshore activities on the Lapa NE project. Front-end engineering work continued for the Bacalhau project. In the Gulf of Mexico, engineering progressed on the Anchor, King's Quay and Jack St Malo projects and preparations began for installation activity on the Manuel project, ahead of the arrival of *Seven Vega* in the fourth quarter. Offshore activity continued on the Mad Dog 2 project.

Life of Field achieved high vessel utilisation in the quarter with high levels of activity in the Gulf of Mexico and Norway, and continued activity on the three long-term contracts in the Caspian and the UK and Norwegian sectors of the North Sea.

The Renewables business unit completed work on Triton Knoll in the North Sea, utilising *Seaway Strashnov* throughout the quarter, but progress on the Yunlin project in Taiwan was delayed due to restricted access, resulting in *Seaway Yudin, Seaway Aimery* and *Seaway Moxie* being on client-paid standby for part of the quarter. At the end of the quarter, *Seaway Yudin* was re-deployed to the Formosa 2 project. During the quarter, fabrication activities commenced on the Seagreen project.

Overall, utilisation of Subsea 7's active fleet was 84% in the third quarter, compared to 83% in the prior year period, driven by high utilisation of Life of Field vessels and the PLSVs in Brazil. At 30 September 2020, the active fleet comprised 28 vessels.

Outlook for the fourth quarter 2020 and full year 2021

As we head into the closing stages of 2020 the global oil and gas industry remains challenging, but in certain key regions the outlook is more positive. Activity levels are increasing in the Gulf of Mexico, underpinned by a solid backlog of projects involving low-cost tie-backs that leverage existing infrastructure. In Brazil, the extension of our pipelay support vessels provides visibility while tendering activity for pre-salt work, which benefits from favourable oil price breakevens, is robust. Finally, in Norway, tendering activity is improving following the introduction of fiscal incentives. Outside these areas, particularly in the UK, Africa and Asia, prospects remain less certain. The overall timing of certain projects in Saudi Arabia, including Marjan 2, are under review by our client, but we are actively tendering for projects in Qatar.

In Renewables the outlook for near-term activity levels is strong, with progress on the $1.4 billion Seagreen project accelerating into 2021, and high levels of tendering activity for new contracts. The offshore wind turbine installation market continues to be competitive but the market dynamics for inner-array cable lay remain stronger. 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.

We anticipate that revenue for the full year 2020 will be broadly in line with the prior year, while Adjusted EBITDA after incurring Covid-19 costs of $65 million, net, through September but excluding restructuring costs of $99 million, is expected to be broadly in line with current market expectations. While the impact of a second wave of the Covid-19 pandemic remains difficult to evaluate, we expect an increase in revenue in 2021 partly due to re-phasing of some SURF work from 2020 as well as continued growth in Renewables. EBITDA is expected to improve year-on-year and we forecast net operating income to be positive.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 12 November 2020

Time: 12:00 UK Time

Conference ID: 1743579

	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

For further information, please contact:

Katherine Tonks

Head of Investor Relations

email: katherine.tonks@subsea7.com

Telephone: +44 20 8210 5568

Special Note Regarding Forward-Looking Statements

Certain statements made in this announcement may contain ‘forward-looking statements’ (within the meaning of the safe harbour provisions of the U.S. Private Securities Litigation Reform Act of 1995). These statements relate to our current expectations, beliefs, intentions, assumptions or strategies regarding the future and are subject to known and unknown risks that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements may be identified by the use of words such as ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘future’, ‘goal’, ‘intend’, ‘likely’ ‘may’, ‘plan’, ‘project’, ‘seek’, ‘should’, ‘strategy’ ‘will’, and similar expressions. The principal risks which could affect future operations of the Group are described in the ‘Risk Management’ section of the Group’s Annual Report and Consolidated Financial Statements for the year ended 31 December 2019. Factors that may cause actual and future results and trends to differ materially from our forward-looking statements include (but are not limited to): (i) our ability to deliver fixed price projects in accordance with client expectations and within the parameters of our bids, and to avoid cost overruns; (ii) our ability to collect receivables, negotiate variation orders and collect the related revenue; (iii) our ability to recover costs on significant projects; (iv) capital expenditure by oil and gas companies, which is affected by fluctuations in the price of, and demand for, crude oil and natural gas; (v) unanticipated delays or cancellation of projects included in our backlog; (vi) competition and price fluctuations in the markets and businesses in which we operate; (vii) the loss of, or deterioration in our relationship with, any significant clients; (viii) the outcome of legal proceedings or governmental inquiries; (ix) uncertainties inherent in operating internationally, including economic, political and social instability, boycotts or embargoes, labour unrest, changes in foreign governmental regulations, corruption and currency fluctuations; (x) the effects of a pandemic or epidemic or a natural disaster; (xi) liability to third parties for the failure of our joint venture partners to fulfil their obligations; (xii) changes in, or our failure to comply with, applicable laws and regulations (including regulatory measures addressing climate change); (xiii) operating hazards, including spills, environmental damage, personal or property damage and business interruptions caused by adverse weather; (xiv) equipment or mechanical failures, which could increase costs, impair revenue and result in penalties for failure to meet project completion requirements; (xv) the timely delivery of vessels on order and the timely completion of ship conversion programmes; (xvi) our ability to keep pace with technological changes and the impact of potential information technology, cyber security or data security breaches; and (xvii) the effectiveness of our disclosure controls and procedures and internal control over financial reporting;. Many of these factors are beyond our ability to control or predict. Given these uncertainties, you should not place undue reliance on the forward-looking statements. Each forward-looking statement speaks only as of the date of this announcement. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Third Quarter 2020

Revenue
Revenue for the third quarter was $947 million, a decrease of $3 million compared to Q3 2019. Lower revenue in the SURF and Conventional business unit, with low levels of Conventional activities in West Africa and the Middle East, was offset by increased revenue in the Renewables and Heavy Lifting business unit as work on the Seagreen wind farm project progressed.

Revenue in the Life of Field business unit was $65 million, a decrease of $5 million compared with Q3 2019.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the quarter were $114 million and 12% respectively, compared to $181 million and 19% in Q3 2019. Adjusted EBITDA margin in Q3 2020 reflected reduced activity within the SURF and Conventional business unit compared with Q3 2019 and the impact of the Covid-19 pandemic, which had a net cost impact of approximately $20 million.

Net operating income
Net operating income for the quarter was $7 million, compared to net operating income of $59 million in Q3 2019. The year-on-year reduction in net operating income was driven by:

- significantly lower activity levels in the SURF and Conventional business unit and fewer projects in their close-out phase compared to the prior year period;
- net costs of approximately $20 million related to the Covid-19 pandemic;
- statistical allowances for expected credit losses of $6 million recognised in accordance with IFRS 9

partly offset by:

- increased net operating income in the Life of Field and Renewables and Heavy Lifting business units; and
- a credit of $5 million related to the group's resizing programme as a result of downward revisions to restructuring cost estimates.

Net loss
Net loss was $43 million in the quarter, compared to net income of $42 million in Q3 2019.

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

- reduction in net operating income of $52 million; and
- net losses related to foreign exchange of $10 million in Q3 2020, compared to net gains related to foreign exchange of $12 million in Q3 2019.

The tax charge of $32 million in Q3 2020 was mainly driven by the inability to recognise tax credits for losses incurred in certain jurisdictions and irrecoverable withholding taxes.

Earnings per share
Diluted loss per share was $0.14 in Q3 2020 compared to diluted earnings per share of $0.15 in Q3 2019, calculated using a weighted average number of shares of 297 million and 299 million respectively.

Cash and cash equivalents
Cash and cash equivalents were $542 million at 30 September 2020, an increase of $58 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 $122 million

partly offset by:

- payments related to lease liabilities of $29 million; and
- purchases of property, plant and equipment and intangible assets of $20 million.

Borrowings and lease liabilities
Borrowings decreased to $215 million at 30 September 2020 from $221 million at 30 June 2020 due to scheduled repayments. At 30 September 2020, lease liabilities were $273 million, a decrease of $19 million compared with 30 June 2020, mainly driven by payments made in the quarter.

Nine months ended 30 September 2020

Revenue
Revenue for the nine months ended 30 September 2020 was $2.5 billion, a decrease of $316 million or 11% compared to the equivalent period in 2019. The year-on-year decrease was primarily driven by a significant reduction in activity in West Africa and the Middle East and re-phasing of awarded work due to low oil prices and the Covid-19 pandemic in the SURF and Conventional business unit. This was partly offset by increased activity in the Renewables and Heavy Lifting business unit as work commenced on the Seagreen offshore wind farm project.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the nine months ended 30 September 2020 was $172 million and 7% respectively, compared to $462 million and 17% in 2019. Adjusted EBITDA reflected significantly reduced activity within the SURF and Conventional business unit compared with 2019, the impact of the Covid-19 pandemic which had a net cost of approximately $65 million and the recognition of $99 million of restructuring costs related to the Group's downsizing programme.

Net operating loss
Net operating loss, excluding goodwill impairment charges, for the nine months ended 30 September 2020 was $394 million, compared to net operating income of $93 million in 2019. The main items contributing to net operating loss were:

- significantly lower activity levels in the SURF and Conventional business unit and fewer projects in their close-out phase compared to the prior year period;

- 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 $99 million related to the Group's resizing programme; and
- net costs of approximately $65 million related to the Covid-19 pandemic.

During the nine months ended 30 September 2020, goodwill impairment charges of $578 million were recognised within the SURF and Conventional Business unit, the charges were driven by downward revisions to expected activity levels in the short to medium term.

Net loss

Net loss was $1.0 billion for the nine months ended 30 September 2020, compared to net income of $47 million in 2019. The net loss was primarily due to:

- the net operating loss recognised in the period;
- net foreign currency losses of $12 million

partly offset by:

- net gain of $17 million on recognition of a receivable related to a business combination completed in prior years.

The tax charge for the nine months ended 30 September 2020 was $20 million which reflected limited tax relief available on impairment charges recognised during 1H 2020, losses incurred in certain jurisdictions where tax credits could not be recognised and the impact of irrecoverable withholding taxes.

Earnings per share

Diluted loss per share was $3.33 for the nine months ended 30 September 2020 compared to diluted earnings per share of $0.17 in 2019, calculated using a weighted average number of shares of 298 million and 308 million respectively. Adjusted diluted loss per share, which excludes the impact of the goodwill impairment charges, was $1.38 for the nine months ended 30 September 2020.

Cash and cash equivalents

Cash and cash equivalents were $542 million at 30 September 2020 compared to $398 million at 31 December 2019. The $144 million increase in cash and cash equivalents during the period was mainly attributable to:

- net cash generated from operating activities of $423 million

partly offset by:

- purchases of property, plant and equipment and intangible assets of $146 million;
- payments related to lease liabilities of $82 million; and
- repurchase of shares of $10 million.

Borrowings and lease liabilities

Borrowings decreased to $215 million at 30 September 2020 from $234 million at 31 December 2019 due to scheduled repayments. At 30 September 2020, lease liabilities were $273 million, a decrease of $72 million compared with 31 December 2019, the reduction was driven by payments made in the period, a downward revision of expected lease periods and lease terminations.

Business Unit Highlights

Third Quarter 2020

SURF and Conventional

Revenue for the third quarter was $613 million, a decrease of $213 million or 26% compared to Q3 2019.

During the quarter the Snorre project, offshore Norway, was completed. Work progressed on 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, the Mad Dog 2, King's Quay and Manuel projects in the US Gulf of Mexico, the Ærfugl, Ærfugl Phase 2 and Nova projects, offshore Norway and the Arran, Penguins and Buzzard Phase 2 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.

Net operating income was $3 million in the quarter compared to net operating income of $62 million in Q3 2019. The reduction in net operating income in the quarter was primarily driven by decreased Conventional activity in Africa and the Middle East compared to Q3 2019, low levels of diving activity in the UK North Sea and consequent lower vessel utilisation. Net operating income was adversely impacted by net costs associated with the Covid-19 pandemic.

Life of Field

Revenue for Q3 2020 was $65 million, a decrease of $5 million compared to Q3 2019. Net operating income was $11 million in Q3 2020 compared to net operating income of $6 million in Q3 2019. The increase in net operating income was driven by higher vessel utilisation than the prior year period and the benefit of the Group's cost reduction measures.

Renewables and Heavy Lifting

Revenue was $269 million in Q3 2020 compared to $55 million in Q3 2019. The increase in revenue was due to increased activity, particularly in relation to the Seagreen wind farm project, offshore UK, and the Yunlin project, offshore Taiwan. During the quarter the Triton Knoll wind farm project, offshore UK, was substantially completed. Net operating income was $nil in Q3 2020 compared to net operating loss of $8 million in Q3 2019.

Nine months ended 30 September 2020

SURF and Conventional

Revenue was $1.9 billion, a decrease of $551 million or 23% compared to the same period in 2019.

During the period the Burullus 9B project, offshore Egypt, and the Snorre project, offshore Norway were completed. Work progressed on 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 Ærfugl, Ærfugl Phase 2 and Nova projects, offshore Norway and the Arran, Penguins and Buzzard Phase 2 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 during the second quarter.

Net operating loss, excluding goodwill impairment charges, was $212 million in the first nine months of the year, compared to net operating income of $126 million in 2019. The net operating loss in 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 2019, decreased diving activities in the North Sea and lower vessel utilisation. The net operating loss in 2020 was also adversely impacted by net costs associated with the Covid-19 pandemic.

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

Life of Field

Revenue was $191 million for the nine months ended 30 September 2020, $5 million lower than for the same period in 2019. Net operating income was $3 million compared to $nil in 2019. The increase in net operating income was driven by higher vessel utilisation than the prior year period and the benefit of the Group's cost reduction measures, partly offset by impairment charges of $14 million related to ROVs and equipment.

Renewables and Heavy Lifting

Revenue was $398 million for the nine months ended 30 September 2020, compared to $158 million in the prior year period. The increase in revenue was due to increased activity, with the commencement of the Seagreen wind farm project, offshore UK, and progress on the Yunlin project, offshore Taiwan. The Triton Knoll project, offshore UK, was completed during the period. Net operating loss was $38 million in 2020 compared to net operating loss of $27 million in 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* in the second quarter of 2020.

Corporate

Net operating loss of $147 million for the nine months ended 30 September 2020 included restructuring costs of $99 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 84% compared with 83% for Q3 2019. Total Vessel Utilisation was 76% compared to 78% in Q3 2019.

At 30 September 2020 there were 32 vessels in the fleet, comprising 28 active vessels, three stacked vessels and one vessel under construction.

Asset Development

During the quarter, construction work was completed on the Group's new reel-lay vessel, *Seven Vega*, and the vessel commenced operations in November 2020. Work commenced to convert *Seven Phoenix* into a cable lay vessel and it is expected to be operational in the first half of 2021.

Backlog

At 30 September 2020 backlog was $6.8 billion, a decrease of $0.2 billion compared with 30 June 2020. Order intake totalling $0.7 billion was recorded in the quarter, with escalations of approximately $500 million, which included contract extensions worth $180 million in total with Petrobras for three pipelay support vessels (PLSV) operating offshore Brazil. New awards in the quarter of $150 million included an award for work offshore Trinidad and Tobago. Favourable foreign exchange movements of approximately $60 million were recognised during the quarter.

$4.2 billion of the backlog at 30 September 2020 related to the SURF and Conventional business unit (which included $0.5 billion related to long-term day-rate contracts for PLSVs in Brazil), $0.5 billion related to the Life of Field business unit and $2.1 billion related to the Renewables and Heavy Lifting business unit. $1.2 billion of the backlog is expected to be executed in 2020, $3.6 billion in 2021 and $2.0 billion in 2022 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Subsea 7 S.A.
Condensed Consolidated Income Statement

(in $ millions)	Third Quarter Q3 2020 Unaudited	Q3 2019 Unaudited	Nine Months Ended 30 Sep 2020 Unaudited	30 Sep 2019 Unaudited
Revenue	**947.4**	950.6	**2,452.0**	2,767.7
Operating expenses	**(892.9)**	(816.0)	**(2,660.9)**	(2,476.4)
Gross profit/(loss)	**54.5**	134.6	**(208.9)**	291.3
Administrative expenses	**(46.8)**	(72.6)	**(179.6)**	(192.5)
Impairment of goodwill	**–**	–	**(578.0)**	–
Share of net loss of associates and joint ventures	**(1.0)**	(3.4)	**(5.5)**	(5.5)
Net operating income/(loss)	**6.7**	58.6	**(972.0)**	93.3
Finance income	**1.0**	2.7	**3.7**	10.7
Other gains and losses	**(14.5)**	15.8	**1.1**	(6.7)
Finance costs	**(4.1)**	(6.5)	**(15.4)**	(19.5)
(Loss)/income before taxes	**(10.9)**	70.6	**(982.6)**	77.8
Taxation	**(32.1)**	(28.4)	**(19.5)**	(31.0)
Net (loss)/income	**(43.0)**	42.2	**(1,002.1)**	46.8
Net (loss)/income attributable to:				
Shareholders of the parent company	**(41.2)**	43.7	**(990.0)**	52.1
Non-controlling interests	**(1.8)**	(1.5)	**(12.1)**	(5.3)
	(43.0)	42.2	**(1,002.1)**	46.8

Earnings per share	**$ per share**	$ per share	**$ per share**	$ per share
Basic	**(0.14)**	0.15	**(3.33)**	0.17
Diluted[a]	**(0.14)**	0.15	**(3.33)**	0.17

(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)	Third Quarter		Nine Months Ended	
	Q3 2020 Unaudited	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Net (loss)/income	**(43.0)**	42.2	**(1,002.1)**	46.8
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	**21.0**	(36.0)	**(33.0)**	(21.5)
Reclassification adjustments relating to disposal of subsidiary	**–**	–	**–**	1.2
Tax relating to components of other comprehensive income which may be reclassified	**(0.3)**	1.2	**1.2**	(0.6)
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)
Other comprehensive income/(loss)	**20.7**	(34.8)	**(31.8)**	(21.3)
Total comprehensive (loss)/income	**(22.3)**	7.4	**(1,033.9)**	25.5
Total comprehensive (loss)/income attributable to:				
Shareholders of the parent company	**(21.1)**	9.5	**(1,022.3)**	31.4
Non-controlling interests	**(1.2)**	(2.1)	**(11.6)**	(5.9)
	(22.3)	7.4	**(1,033.9)**	25.5

Subsea 7 S.A.
Condensed Consolidated Balance Sheet

	30 Sep 2020 Unaudited	31 Dec 2019 Audited
Assets		
Non-current assets		
Goodwill	**107.5**	704.6
Intangible assets	**53.0**	42.8
Property, plant and equipment	**4,063.0**	4,422.3
Right-of-use assets	**241.7**	327.8
Interest in associates and joint ventures	**21.8**	26.2
Advances and receivables	**24.8**	31.4
Derivative financial instruments	**17.8**	1.4
Construction contracts - assets	**11.2**	14.9
Other financial assets	**8.9**	8.1
Deferred tax assets	**35.1**	36.1
	4,584.8	5,615.6
Current assets		
Inventories	**30.6**	31.2
Trade and other receivables	**472.9**	604.7
Derivative financial instruments	**24.7**	4.1
Assets classified as held for sale	**15.0**	0.1
Construction contracts – assets	**455.9**	397.9
Other accrued income and prepaid expenses	**193.2**	168.6
Restricted cash	**13.1**	4.3
Cash and cash equivalents	**541.5**	397.7
	1,746.9	1,608.6
Total assets	**6,331.7**	7,224.2
Equity		
Issued share capital	**600.0**	600.0
Treasury shares	**(23.1)**	(14.0)
Paid in surplus	**2,510.7**	2,507.5
Translation reserve	**(622.3)**	(590.0)
Other reserves	**(19.8)**	(20.2)
Retained earnings	**1,849.0**	2,845.4
Equity attributable to shareholders of the parent company	**4,294.5**	5,328.7
Non-controlling interests	**26.9**	34.3
Total equity	**4,321.4**	5,363.0
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**190.6**	209.0
Non-current lease liabilities	**183.6**	251.2
Retirement benefit obligations	**16.2**	14.9
Deferred tax liabilities	**29.6**	34.9
Provisions	**51.8**	49.3
Contingent liability recognised	**5.6**	7.9
Derivative financial instruments	**15.1**	1.1
Other non-current liabilities	**16.1**	28.0
	508.6	596.3
Current liabilities		
Trade and other liabilities	**901.0**	858.3
Derivative financial instruments	**22.0**	7.0
Current tax liabilities	**43.2**	44.4
Current portion of borrowings	**24.6**	24.6
Current lease liabilities	**89.3**	94.0
Provisions	**124.3**	72.5
Construction contracts – liabilities	**296.4**	162.0
Deferred revenue	**0.9**	2.1
	1,501.7	1,264.9
Total liabilities	**2,010.3**	1,861.2
Total equity and liabilities	**6,331.7**	7,224.2

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 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	–	–	–	–	–	(990.0)	(990.0)	(12.1)	(1,002.1)
Foreign currency translation	–	–	–	(33.5)	–	–	(33.5)	0.5	(33.0)
Tax relating to components of other comprehensive income	–	–	–	1.2	–	–	1.2	–	1.2
Total comprehensive loss	**–**	**–**	**–**	**(32.3)**	**–**	**(990.0)**	**(1,022.3)**	**(11.6)**	**(1,033.9)**
Transactions with owners									
Shares repurchased	–	(9.8)	–	–	–	–	(9.8)	–	(9.8)
Share-based payments	–	–	3.2	–	–	–	3.2	–	3.2
Dividends declared	–	–	–	–	–	–	–	(1.1)	(1.1)
Shares reallocated relating to share-based payments	–	0.7	–	–	–	–	0.7	–	0.7
Loss on reallocation of treasury shares	–	–	–	–	–	(0.7)	(0.7)	–	(0.7)
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	**–**	**(9.1)**	**3.2**	**–**	**0.4**	**(6.4)**	**(11.9)**	**4.2**	**(7.7)**
Balance at 30 September 2020	**600.0**	**(23.1)**	**2,510.7**	**(622.3)**	**(19.8)**	**1,849.0**	**4,294.5**	**26.9**	**4,321.4**

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the nine months ended 30 September 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)	–	–	–	–	–	52.1	52.1	(5.3)	46.8
Foreign currency translation	–	–	–	(20.9)	–	–	(20.9)	(0.6)	(21.5)
Disposal of subsidiary	–	–	–	1.2	–	–	1.2	–	1.2
Tax relating to components of other comprehensive income	–	–	–	(0.6)	(0.4)	–	(1.0)	–	(1.0)
Total comprehensive income/(loss)	**–**	**–**	**–**	**(20.3)**	**(0.4)**	**52.1**	**31.4**	**(5.9)**	**25.5**
Transactions with owners									
Shares repurchased	–	(249.7)	–	–	–	–	(249.7)	–	(249.7)
Share cancellation	(54.7)	322.0	(267.3)	–	–	–	–	–	–
Dividends declared	–	–	(54.6)	–	–	–	(54.6)	(5.0)	(59.6)
Share-based payments	–	–	3.5	–	–	–	3.5	–	3.5
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	**(54.7)**	**72.5**	**(318.4)**	**–**	**7.2**	**(7.4)**	**(300.8)**	**(5.0)**	**(305.8)**
Balance at 30 September 2019	**600.0**	**(22.5)**	**2,508.2**	**(638.7)**	**(19.5)**	**2,986.5**	**5,414.0**	**27.5**	**5,441.5**

Subsea 7 S.A.
Condensed Consolidated Cash Flow Statement

(in $ millions)	Nine Months Ended 30 Sep 2020 Unaudited	Nine Months Ended 30 Sep 2019 Unaudited
Net cash generated from operating activities	**423.0**	195.0
Cash flows from investing activities		
Net proceeds from disposal of property, plant and equipment	**1.6**	4.5
Purchases of property, plant and equipment	**(125.9)**	(170.4)
Purchases of intangible assets	**(20.4)**	(6.5)
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	**3.7**	10.7
Acquisition of businesses (net of cash and borrowings acquired)	**–**	(8.8)
Payment of contingent consideration in respect of acquisitions	**–**	(29.5)
Proceeds from disposal of subsidiary	**–**	4.6
Proceeds from sale of other financial assets	**–**	21.4
Investment in other financial assets	**(2.9)**	(1.0)
Net cash used in investing activities	**(127.3)**	(175.2)
Cash flows from financing activities		
Interest paid	**(9.1)**	(8.6)
Repayment of borrowings	**(18.5)**	(19.2)
Cost of share repurchases	**(9.8)**	(249.7)
Payments related to lease liabilities	**(82.1)**	(80.7)
Dividends paid to equity shareholders of the parent company	**–**	(53.8)
Dividends paid to non-controlling interests	**(10.2)**	(1.0)
Net cash used in financing activities	**(129.7)**	(413.0)
Net increase/(decrease) in cash and cash equivalents	**166.0**	(393.2)
Cash and cash equivalents at beginning of year	**397.7**	764.9
Increase in restricted cash	**(8.8)**	–
Effect of foreign exchange rate movements on cash and cash equivalents	**(13.4)**	(4.6)
Cash and cash equivalents at end of period	**541.5**	367.1

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 11 November 2020.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period from 1 January 2020 to 30 September 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 Q3 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 re-phasing 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 Q3 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 note 10 'Goodwill' and note 11 'Impairments of property, plant and equipment and right-of-use assets' of the Condensed Consolidated Financial Statements. No impairments were recognised during Q3 2020. Management will perform the Group's annual impairment review during Q4 2020.

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. No further reassessments were undertaken during Q3 2020. Management will perform the Group's annual impairment review during Q4 2020.

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 September 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.

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

For the three months ended 30 September 2020

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	**500.9**	**3.9**	**269.2**	**–**	**774.0**
Day-rate projects	**112.4**	**61.0**	**–**	**–**	**173.4**
	613.3	**64.9**	**269.2**	**–**	**947.4**
Net operating income/(loss)	**3.4**	**11.3**	**0.1**	**(8.1)**	**6.7**
Finance income					**1.0**
Other gains and losses					**(14.5)**
Finance costs					**(4.1)**
Loss before taxes					**(10.9)**

For the three months ended 30 September 2019

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	670.9	3.0	54.9	–	728.8
Day-rate projects	154.9	66.6	0.3	–	221.8
	825.8	69.6	55.2	–	950.6
Net operating income/(loss)	62.1	6.4	(7.6)	(2.3)	58.6
Finance income					2.7
Other gains and losses					15.8
Finance costs					(6.5)
Income before taxes					70.6

For the nine months ended 30 September 2020

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	**1,504.3**	**7.8**	**396.5**	**–**	**1,908.6**
Day-rate projects	**359.6**	**182.8**	**1.0**	**–**	**543.4**
	1,863.9	**190.6**	**397.5**	**–**	**2,452.0**
Net operating (loss)/income excluding goodwill impairment charges	**(211.9)**	**2.8**	**(38.3)**	**(146.6)**	**(394.0)**
Impairment of goodwill	**(578.0)**	**–**	**–**	**–**	**(578.0)**
Net operating (loss)/income	**(789.9)**	**2.8**	**(38.3)**	**(146.6)**	**(972.0)**
Finance income					**3.7**
Other gains and losses					**1.1**
Finance costs					**(15.4)**
Loss before taxes					**(982.6)**

For the nine months ended 30 September 2019

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	1,932.3	4.5	157.4	–	2,094.2
Day-rate projects	482.2	191.0	0.3	–	673.5
	2,414.5	195.5	157.7	–	2,767.7
Net operating income/(loss)	126.3	0.1	(26.7)	(6.4)	93.3
Finance income					10.7
Other gains and losses					(6.7)
Finance costs					(19.5)
Income before taxes					77.8

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:

	Third Quarter		Nine Months Ended	
For the period (in $ millions)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Net (loss)/income attributable to shareholders of the parent company	**(41.2)**	43.7	**(990.0)**	52.1
Earnings used in the calculation of diluted earnings/(loss) per share	**(41.2)**	43.7	**(990.0)**	52.1

	Third Quarter		Nine Months Ended	
For the period (number of shares)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Weighted average number of common shares used in the calculation of basic earnings/(loss) per share	**297,215,661**	298,185,311	**297,648,099**	306,946,215
Share options and performance shares	**–**	1,122,228	**–**	1,181,835
Weighted average number of common shares used in the calculation of diluted earnings/(loss) per share	**297,215,661**	299,307,539	**297,648,099**	308,128,050

	Third Quarter		Nine Months Ended	
For the period (in $ per share)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Basic (loss)/earnings per share	**(0.14)**	0.15	**(3.33)**	0.17
Diluted (loss)/earnings per share	**(0.14)**	0.15	**(3.33)**	0.17

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:

	Third Quarter		Nine Months Ended	
For the period (number of shares)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Share options and performance shares	**1,787,954**	831,004	**1,792,824**	773,982

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:

	Third Quarter		Nine Months Ended	
For the period (in $ millions)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Net (loss)/income attributable to shareholders of the parent company	**(41.2)**	43.7	**(990.0)**	52.1
Impairment of goodwill	**–**	–	**578.0**	–
Earnings used in the calculation of Adjusted diluted earnings/(loss) per share	**(41.2)**	43.7	**(412.0)**	52.1

	Third Quarter		Nine Months Ended	
For the period (number of shares)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Weighted average number of common shares used in the calculation of basic earnings/(loss) per share	**297,215,661**	298,185,311	**297,648,099**	306,946,215
Share options and performance shares	**–**	1,122,228	**–**	1,181,835
Weighted average number of common shares used in the calculation of Adjusted diluted earnings/(loss) per share	**297,215,661**	299,307,539	**297,648,099**	308,128,050

	Third Quarter		Nine Months Ended	
For the period (in $ per share)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Adjusted diluted (loss)/earnings per share	**(0.14)**	0.15	**(1.38)**	0.17

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 income/(loss) to Adjusted EBITDA and Adjusted EBITDA margin:

	Third Quarter		Nine Months Ended	
For the period (in $ millions)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Net operating income/(loss)	**6.7**	58.6	**(972.0)**	93.3
Depreciation, amortisation and mobilisation	**106.9**	121.9	**337.2**	369.0
Impairment of goodwill	**–**	–	**578.0**	–
Impairment of property, plant and equipment	**–**	–	**212.5**	–
Impairment of right-of-use assets	**–**	–	**16.7**	–
Adjusted EBITDA	**113.6**	180.5	**172.4**	462.3
Revenue	**947.4**	950.6	**2,452.0**	2,767.7
Adjusted EBITDA margin	**12.0%**	19.0%	**7.0%**	16.7%

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

	Third Quarter		Nine Months Ended	
For the period (in $ millions)	**Q3 2020 Unaudited**	Q3 2019 Unaudited	**30 Sep 2020 Unaudited**	30 Sep 2019 Unaudited
Net (loss)/income	**(43.0)**	42.2	**(1,002.1)**	46.8
Depreciation, amortisation and mobilisation	**106.9**	121.9	**337.2**	369.0
Impairment of goodwill	**–**	–	**578.0**	–
Impairment of property, plant and equipment	**–**	–	**212.5**	–
Impairment of right-of-use assets	**–**	–	**16.7**	–
Finance income	**(1.0)**	(2.7)	**(3.7)**	(10.7)
Other gains and losses	**14.5**	(15.8)	**(1.1)**	6.7
Finance costs	**4.1**	6.5	**15.4**	19.5
Taxation	**32.1**	28.4	**19.5**	31.0
Adjusted EBITDA	**113.6**	180.5	**172.4**	462.3
Revenue	**947.4**	950.6	**2,452.0**	2,767.7
Adjusted EBITDA margin	**12.0%**	19.0%	**7.0%**	16.7%

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.

During the nine months ended 30 September 2020, the Group recognised a restructuring charge of $98.9 million in relation to the Group's resizing and cost reduction programme. A credit of $5.4 million was recognised in the third quarter as the resizing programme progressed. $81.4 million of the restructuring charge was recognised within operating expenses, $13.3 million within administrative expenses and $4.2 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 2020 and 1H 2021; 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 nine month period was as follows:

	Nine Months Ended	
(in $ millions)	**30 Sep 2020 Unaudited**	30 Sep 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	**–**	26.9
Impairment charges	**(578.0)**	–
Exchange differences	**(19.2)**	(10.1)
At period end	**107.5**	768.1

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 September 2020 and 31 December 2019 were as follows:

At (in $ millions)	**30 Sep 2020 Unaudited**	31 Dec 2019 Audited
Africa	**–**	394.1
Asia Pacific and Middle East	**–**	14.9
Life of Field	**80.4**	82.2
Norway	**–**	104.8
Pipelines Group	**–**	14.8
UK and Canada	**–**	66.6
Xodus	**27.1**	27.2
Total	**107.5**	704.6

There were no additional indictors of impairment identified during the third quarter. 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.

There were no additional indictors of impairment identified during the third quarter. Management will 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. Treasury shares

During the third quarter, 5,107 shares were used to satisfy share-based awards. At 30 September 2020, the Group directly held 2,784,339 shares (Q2 2020: 2,789,446) as treasury shares, representing 0.93% (Q2 2020: 0.93%) of the total number of issued shares.

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

	30 Sep 2020 Number of shares Unaudited	**30 Sep 2020 in $ millions Unaudited**	30 Sep 2019 Number of shares Unaudited	30 Sep 2019 in $ millions Unaudited
At year beginning	**1,212,860**	**14.0**	8,240,024	95.0
Shares repurchased	**1,627,968**	**9.8**	21,056,838	249.7
Share cancellation	**–**	**–**	(27,367,111)	(322.0)
Shares reallocated relating to share-based payments	**(56,489)**	**(0.7)**	(7,644)	(0.2)
At period end	**2,784,339**	**23.1**	1,922,107	22.5

13. Share repurchase programme

During the third quarter, no shares were repurchased under the Group's share repurchase programme authorised on 24 July 2019. At 30 September 2020, the Group has repurchased a cumulative 1,627,968 shares for a total consideration of $9.8 million under this programme.

14. Commitments and contingent liabilities

Commitments

At 30 September 2020, the Group had significant contractual commitments totalling $29.2 million, including commitments related to the construction of *Seven Vega*, a new reel-lay vessel and *Seven Phoenix*, which is being converted to a cable 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 September 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 $89.6 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 $8.8 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 September 2020 amounted to BRL 855.9 million, equivalent to $153.9 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 September 2020 amounted to BRL 237.4 million, equivalent to $42.7 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 BRL190.6 million, equivalent to $34.3 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 September 2020, a provision of BRL 46.8 million, equivalent to $8.4 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 September 2020 was $5.1 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 September 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.

15. Cash flow from operating activities

For the period ended (in $ millions)	Nine Months Ended 30 Sep 2020 Unaudited	Nine Months Ended 30 Sep 2019 Unaudited
Cash flow from operating activities:		
(Loss)/income before taxes	**(982.6)**	77.8
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**251.9**	276.6
Impairment of property, plant and equipment	**212.5**	–
Amortisation of right-of-use assets	**67.2**	77.1
Impairment of right-of-use assets	**16.7**	–
Amortisation of intangible assets	**9.6**	8.5
Amortisation of mobilisation costs	**8.5**	6.8
Impairment of goodwill	**578.0**	–
Adjustments for investing and financing items:		
Share of net income of associates and joint ventures	**5.5**	5.5
Finance income	**(3.7)**	(10.7)
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 settlement of contingent consideration	**–**	(1.5)
Gain on recognition of assets related to business combinations – post measurement period	**(15.5)**	–
Profit on disposal of property, plant and equipment	**(0.3)**	(1.6)
Gain on maturity of lease liabilities	**(0.9)**	–
Finance costs	**15.4**	19.5
Adjustments for equity items:		
Reclassification of exchange differences relating to the disposal of a subsidiary	**–**	1.2
Share-based payments	**3.2**	3.5
	165.5	454.0
Changes in operating assets and liabilities:		
Increase in inventories	**(0.2)**	(5.1)
Decrease/(increase) in operating receivables	**19.8**	(46.3)
Increase/(decrease) in operating liabilities	**269.8**	(117.1)
	289.4	(168.5)
Income taxes paid	**(31.9)**	(90.5)
Net cash generated from operating activities	**423.0**	195.0

16. 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 September 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 Sep Level 1**	**2020 30 Sep Level 2**	**2020 30 Sep 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	**–**	**42.5**	**–**	–	5.5	–
Financial liabilities measured at fair value through profit or loss:						
Derivative instruments	**–**	**(37.1)**	**–**	–	(8.1)	–
Contingent consideration	**–**	**–**	**(8.7)**	–	–	(11.5)

During the period ended 30 September 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.