FINANCIAL REVIEW

MANAGEMENT REPORT FOR SUBSEA 7 GROUP (THE GROUP)

Financial highlights

For the year ended 31 December 2020 revenue was $3.5 billion, a decrease of $190 million or 5% compared to the prior year. Adjusted EBITDA was $337 million (2019: $631 million) equivalent to an Adjusted EBITDA margin of 10% compared with 17% in 2019. Adjusted EBITDA reflected significantly reduced activity within the SURF and Conventional business unit compared with 2019, as well as net costs associated with the Covid-19 pandemic of approximately $70 million and restructuring charges of $86 million related to the Group's cost reduction programme, announced during 2020. Net operating loss, excluding goodwill impairment charges was $428 million compared to net operating income, excluding goodwill impairment charges of $77 million in 2019. During the year impairment charges related to property, plant and equipment, intangible assets and right-of-use assets of $323 million were recognised (2019: $70 million) in addition to impairment charges related to goodwill of $605 million (2019: $100 million). Net loss for the year was $1.1 billion compared to net loss of $82 million in 2019. Excluding the goodwill impairment charges net loss was $500 million in 2020. Adjusted diluted earnings per share, which excludes the goodwill impairment charges was a loss per share of $1.64 compared to earnings per share of $0.05 in the prior year.

In a challenging twelve months Subsea 7 responded well. The Covid-19 pandemic required radical changes to operations and had an adverse effect on the market for the Group's oil and gas businesses. In response, incremental operating costs were booked and the cost base was restructured, with material impairments to goodwill and asset values recognised. Yet, Subsea 7 continued to deliver projects to its clients, generated positive cash flow and increased its backlog.

Subsea 7's backlog grew by 20% to $6.2 billion, the result of a strong presence in the growing offshore renewables market and a focus on parts of the oil and gas market with favourable economics. Order intake during the year was $4.4 billion, including the $1.4 billion Seagreen offshore wind farm project, offshore UK, equivalent to a book-to-bill ratio of 1.3.

The Group's liquidity and financial position remained strong. At 31 December 2020, the Group held cash and cash equivalents of $512 million compared with $398 million at 31 December 2019, had total borrowings of $209 million compared with $234 million at 31 December 2019 and unutilised credit facilities in excess of $1 billion.

Given the improvement in the stability and visibility of the Group's markets over the past six months, a special dividend payment of NOK 2.00 per share, equivalent to approximately $70 million, is to be recommended by the Board for approval by shareholders at the AGM. Subsea 7 has returned $2 billion of excess capital to shareholders over the past decade, and this latest dividend recommendation marking the Board's confidence in the financial position and outlook for the Group.

For the year ended (in $ millions, except Adjusted EBITDA margin, share and per share data)	**2020 31 Dec**	2019 31 Dec
Revenue	**3,466**	3,657
Adjusted EBITDA[(a),(b)] (unaudited)	**337**	631
Adjusted EBITDA margin[(a),(b)] (unaudited)	**10%**	17%
Net operating (loss)/income excluding goodwill impairment charges	**(428)**	77
Goodwill impairment charges	**(605)**	(100)
Net operating loss	**(1,034)**	(23)
Net (loss)/income excluding goodwill impairment charges	**(500)**	18
Net loss	**(1,105)**	(82)
Earnings per share – in $ per share		
Basic	**(3.67)**	(0.27)
Diluted[(c)]	**(3.67)**	(0.27)
Adjusted diluted[(c)]	**(1.64)**	0.05

At (in $ millions)	**2020 31 Dec**	2019 31 Dec
Backlog[(d)]	**6,214**	5,187
Cash and cash equivalents	**512**	398
Borrowings	**(209)**	(234)
Net cash excluding lease liabilities[(e)]	**303**	164
Net cash/(debt) including lease liabilities[(e)]	**49**	(181)

(a) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to page 136 'Adjusted EBITDA and Adjusted EBITDA margin'.
(b) During the year ended 31 December 2020 restructuring charges of $86 million were recognised (2019: $nil), 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 11 'Earnings per share' to the Consolidated Financial Statements.
(d) Backlog at 31 December 2020 and 31 December 2019 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.

Revenue
Revenue for the year ended 31 December 2020 was $3.5 billion, a decrease of $190 million or 5% compared to 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 in Taiwan, offshore US east coast and on the Seagreen offshore wind farm project, offshore UK.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the year ended 31 December 2020 were $337 million and 10% respectively, compared to $631 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 $70 million and the recognition of $86 million of restructuring costs related to the Group's downsizing programme announced in Q2 2020.

Net operating loss
Net operating loss, excluding goodwill impairment charges, for the year ended 31 December 2020 was $428 million compared to net operating income of $77 million in 2019. The main items contributing to the 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;
- net costs of approximately $70 million related to the Covid-19 pandemic;
- impairment charges of $282 million related to property, plant and equipment, mainly related to older vessels or vessels expected to have low utilisation;
- impairment charges of $32 million related to right-of-use assets;
- impairment charges of $9 million related to intangible assets; and
- restructuring costs of $86 million related to the Group's resizing programme.

During the year ended 31 December 2020, goodwill impairment charges totalling $605 million were recognised. The charges were driven by downward revisions to expected activity levels within the SURF and Conventional business unit in the short to medium term. Net operating loss including the impact of goodwill impairment charges was $1.0 billion, compared to a net operating loss of $23 million in 2019.

Net loss

Net loss was $1.1 billion for the year ended 31 December 2020, compared to net loss of $82 million in 2019. The net loss in 2020 was primarily due to:

- the net operating loss of $1.0 billion;
- net foreign currency losses of $35 million

partly offset by:

- net gain of $16 million on recognition of a receivable related to a business combination completed in prior years.

The tax charge for the year ended 31 December 2020 of $33 million reflected the limited tax relief available related to the goodwill and impairment charges recognised in the year, together with irrecoverable withholding taxes and the impact of losses incurred in certain jurisdictions where tax credits could not be recognised.

Earnings per share

Diluted loss per share was $3.67 for the year ended 31 December 2020 compared to a diluted loss per share of $0.27 in 2019, calculated using a weighted average number of shares of 298 million and 305 million respectively. Adjusted diluted loss per share, which excludes the impact of goodwill impairment charges, was $1.64 for the year ended 31 December 2020.

Allocation of net income/(loss)

The net loss for the year of $1,105 million (2019: net loss of $82 million) was transferred to equity, of which net loss of $1,093 million (2019: net loss of $84 million) was recognised in retained earnings attributable to shareholders of the parent company and net loss of $12 million in non-controlling interests (2019: net income of $1 million).

Business Unit Highlights
For the year ended 31 December 2020

(in $ millions)	**SURF and Conventional**	**Life of Field**	**Renewables and Heavy Lifting**	**Corporate**	**Total**
Selected financial information:					
Revenue	**2,578.4**	**256.6**	**631.4**	**–**	**3,466.4**
Net operating loss excluding goodwill impairment charges	**(258.8)**	**12.6**	**(39.7)**	**(142.5)**	**(428.4)**
Impairment of goodwill	**(591.4)**	**(14.0)**	**–**	**–**	**(605.4)**
Net operating loss	**(850.2)**	**(1.4)**	**(39.7)**	**(142.5)**	**(1,033.8)**

For the year ended 31 December 2019

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

SURF and Conventional

Revenue was $2.6 billion, a decrease of $596 million or 19% compared to 2019.

During the year 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 Sangomar project, offshore Senegal, 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, Blythe and Buzzard Phase 2 projects, offshore UK. In Brazil, the Lapa NE project was substantially completed and there were high levels of PLSV utilisation under long-term contracts with Petrobras. Certain PLSVs had operations adversely impacted by Covid-19 outbreaks onboard during the year.

Net operating loss, excluding goodwill impairment charges, was $259 million for the year, compared to net operating income of $160 million in 2019. The net operating loss in 2020 was primarily driven by impairment charges of $280 million related to vessels, equipment and right-of-use assets (2019: $66 million). 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 of approximately $65 million.

During the year goodwill impairment charges of $591 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 $257 million for the year ended 31 December 2020, $9 million lower than in 2019. Net operating income, excluding goodwill impairment was $13 million compared to net operating loss of $3 million in 2019. The increase in net operating income was driven by higher vessel utilisation than the prior year and the benefit of the Group's cost reduction measures, partly offset by impairment charges of $15 million related to ROVs and equipment.

During the year goodwill impairment charges of $14 million were recognised. The charges were driven by downward revisions to expected activity levels in the short to medium term.

Renewables and Heavy Lifting

Revenue was $631 million for the year ended 31 December 2020, compared to $217 million in 2019. The increase in revenue was due to increased activity, with the commencement of the Seagreen offshore wind farm project, offshore UK, and progress on the Yunlin project, offshore Taiwan. The Triton Knoll project, offshore UK, was completed during the year. Net operating loss was $40 million in 2020 compared to a net operating loss, excluding goodwill impairment, of $56 million in 2019. The year-on-year decrease in net operating loss was primarily driven by higher activity levels and improved vessel utilisation, partly offset by increased costs on the Triton Knoll project following an incident onboard *Seaway Strashnov* during the second quarter.

Corporate

Net operating loss of $143 million for the year ended 31 December 2020 included restructuring costs of $86 million recognised in relation to the Group's resizing programme and impairment charges of $29 million related to property, plant and equipment and intangible assets.

Research and development

During the year, research and development costs were $15 million compared to $22 million in 2019.

Backlog

At 31 December 2020 backlog was $6.2 billion, an increase of $1.0 billion compared with 31 December 2019. Order intake totalling $4.4 billion, including escalations, was recorded in the year. New awards included the Seagreen offshore wind farm project, offshore UK.

$3.8 billion of the backlog at 31 December 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), $0.4 billion related to the Life of Field business unit and $2.0 billion related to the Renewables and Heavy Lifting business unit. $4.0 billion of the backlog is expected to be executed in 2021, $1.6 billion in 2022 and $0.6 billion in 2023 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Balance sheet

Goodwill

At 31 December 2020, goodwill was $85 million, a net decrease of $620 million compared with the prior year. During the year goodwill impairment charges of $591 million and $14 million were recognised related to the SURF and Conventional business unit and the Life of Field business units respectively. The charges were triggered by the Covid-19 pandemic and the challenges facing the energy sector which adversely impacted expected future activity levels of the Group.

Property, plant and equipment

During 2020 additions to property, plant and equipment totalled $177 million (2019: $272 million) which included the completion of the reel-lay vessel, *Seven Vega*, which commenced operations in the fourth quarter of 2020 and the ongoing conversion of *Seven Phoenix* to cable lay. Impairment charges totalling $282 million were recognised in the year (2019: $70 million), mainly related to older vessels or vessels with low utilisation forecast in the short to medium term within the SURF and Conventional business unit.

Borrowings and lease liabilities

Borrowings decreased to $209 million at 31 December 2020 from $234 million at 31 December 2019 due to scheduled repayments. Lease liabilities were $254 million at 31 December 2020, a decrease of $91 million compared with 31 December 2019, the reduction was driven by payments made in the year, a downward revision of expected lease periods and lease terminations.

Facilities

At 31 December 2020 the Group had facilities of $656 million relating to the Group's multi-currency revolving credit and guarantee facility, and $800 million relating to the Group's Euro Commercial Paper Programme, both of which remained unutilised.

Share repurchase plans

During 2020, the Group repurchased 1,627,968 shares for a total consideration of $10 million. The shares were repurchased under the share repurchase programme authorised by the Board of Directors on 24 July 2019, which is valid until July 2021. At 31 December 2020, the Group directly held 2,326,683 shares (2019: 1,212,860) as treasury shares.

Dividends

During the year ended 31 December 2020, no dividends were declared or paid to shareholders of the parent company.

Shareholders

The 20 largest shareholders at 31 December 2020 and their beneficial ownership[(a)] as a percentage of the total fully paid and issued common shares of the Company were:

	%
Siem Industries S.A. (formerly Siem Industries Inc.)	24.3
Folketrygdfondet	9.5
BlackRock Institutional Trust Company, N.A.	3.7
Fidelity Management & Research Company	3.1
Trinity Street Asset Management LLP	3.1
DNB Asset Management AS	2.6
Storebrand Kapitalforvaltning AS	2.2
The Vanguard Group, Inc.	2.0
Robotti & Company Advisors, LLC	1.9
SAFE Investment Company Limited	1.9
Pareto Asset Management AS	1.7
Nordea Funds Oy	1.7
KLP Forsikring	1.7
ODIN Forvaltning AS	1.2
Alken Asset Management Ltd	1.1
Dimensional Fund Advisors, L.P.	1.0
Danske Invest Asset Management Ltd	1.0
Cobas Asset Management, SGIIC, SA	0.9
BlackRock Investment Management (UK) Ltd.	0.9
Mandarine Gestion	0.8

(a) The data is provided by NASDAQ OMX and is obtained through an analysis of beneficial ownership and fund manager information. This is provided in response to disclosure of ownership notices issued to all custodians on the Subsea 7 VPS share register. While every reasonable effort has been made to verify the data, there may be fluctuations as a result of such events as stock lending or other non-institutional stock movements, and neither Subsea 7 nor NASDAQ OMX can guarantee the accuracy of the analysis.

Cash and cash equivalents

Movements in cash and cash equivalents are summarised as follows:

For the year ended (in $ millions)	**2020 31 Dec**	2019 31 Dec
Cash and cash equivalents at the beginning of the year	**398**	765
Net cash generated from operating activities	**447**	357
Net cash used in investing activities	**(165)**	(274)
Net cash used in financing activities	**(158)**	(447)
Increase in restricted cash	**(3)**	–
Effect of exchange rate changes on cash and cash equivalents	**(7)**	(3)
Cash and cash equivalents at the end of the year	**512**	398

Net cash generated from operating activities was $447 million (2019: $357 million) which included a net increase in operating liabilities of $192 million (2019: net decrease of $145 million).

Net cash used in investing activities was $165 million compared with $274 million used in 2019. This was mainly related to expenditure on property, plant and equipment of $157 million (2019: $240 million) and expenditure related to intangible assets of $25 million (2019: $18 million).

Net cash used in financing activities was $158 million (2019: $447 million), which was mainly driven by payments in relation to lease liabilities of $104 million (2019: $105 million) and scheduled repayments of borrowings of $25 million (2019: $27 million).

Liquidity

At 31 December 2020, the Group had sufficient liquidity to meet its expected funding requirements for the next 12 months with cash and cash equivalents of $512 million. In addition, the Group had facilities of $656 million relating to the Group's multi-currency revolving credit and guarantee facility and $800 million relating to the Group's Euro Commercial Paper Programme, both of which remain unutilised. The Group does not intend to utilise the Euro Commercial Paper Programme concurrently with the multi-currency revolving credit and guarantee facility.

Cash management constraints

The Group operates within a liquidity risk management framework which governs its management of short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by ensuring that it has access to sufficient cash, banking and borrowing facilities. This is achieved by regularly monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities where appropriate.

Covenant compliance

The Group's credit facilities contain various financial covenants including, but not limited to, a minimum level of tangible net worth, a maximum level of net debt to earnings before interest, taxes, depreciation and amortisation, a maximum level of total financial debt to tangible net worth, a minimum level of cash and cash equivalents and an interest cover covenant. During the year all covenants were met. The Group expects to be able to comply with all financial covenants during 2021.

Going concern

The Consolidated Financial Statements have been prepared under the assumption of going concern. This assumption is based on the level of cash and cash equivalents at the year end, the banking and borrowing facilities in place, the forecast cash flows for the Group and the backlog position at 31 December 2020.

Risk management and internal control

The Group's approach to risk management and internal control is detailed in the Risk Management and Governance sections on pages 26 to 51. Financial risk management is as described in Note 32 'Financial instruments'.

Post balance sheet events

Dividends

The Board of Directors will recommend to the shareholders at the Annual General Meeting on 14 April 2021 that a special dividend of NOK 2.00 per share be paid, equivalent to a total dividend of approximately $70 million, marking the Board's confidence in the financial position and outlook for the Group, as well as a continued commitment to capital discipline.

Facilities

On 24 February 2021, the Group entered into a $500 million five-year amortising loan facility backed by a $400 million guarantee from UK Export Finance. The Group has a two-year availability period during which to draw on the facility, and the facility has a five-year tenor which commences at the end of the availability period or when the facility is fully drawn, if earlier. The facility can be used for general corporate purposes, including to provide working capital financing for services provided from the UK. The facility is guaranteed by Subsea 7 S.A.

Outlook

After a brief pause in the first half of the year, tendering for oil and gas projects recommenced at a lower level during the second half of 2020 and continues at this pace in 2021. Regions with greater activity include Norway, where fiscal incentives have stimulated an increase in early-stage engineering activity, the Gulf of Mexico, predominantly focused on low-cost tie-backs, and Brazil, where the large, pre-salt fields have low oil price breakevens that continue to attract capital. In addition, Subsea 7 has been selected as preferred supplier for several projects, including Bacalhau, Scarborough, Pecan and Rovuma and management is optimistic that some of these will progress to award during 2021.

Tendering in Renewables remains active for projects expected to result in awards to the industry in nine to twelve months' time including in Asia, Europe and the US. While the market for wind turbine installation work remains competitive, Subsea 7 continues to differentiate itself through its integrated and EPCI contract offerings, leveraging a strong track record in the management of large, complex projects across the globe.

Subsea 7's 2021 results are likely to be adversely impacted by costs associated with the Covid-19 pandemic, including more contagious, new variants of the virus. It is anticipated that revenue in 2021 will exceed the prior year level, predominantly driven by greater activity in Renewables. Revenue in Subsea and Conventional should increase due to the re-phasing of some work from 2020 into 2021. While it is difficult to predict the operational and financial impact of Covid-19 in 2021, Adjusted EBITDA is expected to improve year-on-year and net operating income is expected to be positive.

MANAGEMENT REPORT FOR SUBSEA 7 S.A. (THE COMPANY)

Additional information specific to the Unconsolidated Financial Statements of Subsea 7 S.A.

Unconsolidated Financial Statements of Subsea 7 S.A.

The Unconsolidated Financial Statements of Subsea 7 S.A., the ultimate parent company of the Subsea 7 S.A. Group, are shown on page 141 to page 148. These were prepared in accordance with Luxembourg's legal and regulatory requirements and using the going concern basis of accounting described above. The loss for the year ended 31 December 2020 was $0.3 million (2019: profit of $61 million). The loss was mainly as a result of income related to parent company guarantees being more than offset by value adjustments in respect of investments in affiliated undertakings and other operating expenses. It is proposed that the loss of $0.3 million for the year ended 31 December 2020 be allocated to profit and loss brought forward at 1 January 2021 resulting in a profit to be brought forward amounting to $178 million.

Own shares held

During 2020, the Company repurchased 1,627,968 shares for a total consideration of $10 million. At 31 December 2020 the Company directly held 2,326,683 (2019: 1,212,860) own shares at a carrying amount of $17 million (2019: $14 million).

Risk management, internal control and corporate governance

The Company's approach to risk management, internal control and corporate governance is consistent with that applied to affiliates in the Subsea 7 S.A. Group and is detailed in the Risk Management and Governance sections on pages 26 to 51. Financial risk management is described in Note 32 'Financial instruments'. Non-financial information required by regulation is provided on pages 1 to 51.

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

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