Subsea 7 S.A. Announces Second Quarter and Half Year 2019 Results

Luxembourg – 25 July 2019 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY, ISIN: LU0075646355) announced today results for the second quarter and first half of 2019 which ended 30 June 2019.

Second Quarter highlights

- Revenue of $958 million, Adjusted EBITDA of $171 million and margin of 18% reflected steady performance in SURF and Conventional offset by low levels of renewables activity in the quarter
- $4.6 billion order backlog at 30 June 2019 with $395 million of new awards and escalations in the quarter
- 2019 share repurchase programme completed 11 July 2019. Year to date, $279 million has been returned to shareholders including NOK 1.50 per share dividend paid in the second quarter
- New $200 million share repurchase programme announced, supported by the recovering offshore oil and gas market and Subsea 7's solid financial and liquidity position

	Second Quarter		Half Year	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**Q2 2019 Unaudited**	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Revenue	**958**	1,160	**1,817**	1,969
Adjusted EBITDA[(a)] (unaudited)	**171**	186	**282**	289
Adjusted EBITDA margin[(a)] (unaudited)	**18%**	16%	**16%**	15%
Net operating income	**45**	74	**35**	66
Net income	**24**	74	**5**	56
Earnings per share – in $ per share				
Basic	**0.09**	0.24	**0.03**	0.21
Diluted[(b)]	**0.09**	0.24	**0.03**	0.21

As at (in $ millions)	**30 Jun 2019 Unaudited**	31 Mar 2019 Unaudited
Backlog - unaudited[(c)]	**4,594**	5,192
Cash and cash equivalents	**420**	666
Borrowings	**(246)**	(253)
Net cash (excluding IFRS 16 'Leases' liabilities)	**174**	413
Net (debt)/cash (including IFRS 16 'Leases' liabilities)	**(221)**	1

(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. IFRS 16 'Leases' was implemented on 1 January 2019 and comparative figures for 2018 have not been restated, as a result Adjusted EBITDA in Q2 2019 and 1H 2019 benefitted by $26 million and $53 million respectively.

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

(c) Backlog at 30 June 2019 and 31 March 2019 is unaudited and is a non-IFRS measure.

Jean Cahuzac, Chief Executive Officer, said:
'The recovery in offshore oil and gas continues to make steady progress as lower cost solutions for offshore developments service the growing global demand for energy. Our market-leading technology and engineering expertise applied to integrated and standalone developments enable us to support our clients as they sanction and develop their projects. We are working with our clients and alliance partners from the early stages of the field life cycle, and the number of tenders and early engineering studies we are engaging in continues to grow.

We are positive on the outlook for our markets. We have a modern and versatile fleet, strong portfolio of proprietary technology and teams of highly capable people able to deliver complex solutions efficiently, reliably and safely. The new share repurchase programme announced today reflects our confidence in the gradually recovering market, our secure financial position and the diminishing capital investment needs of our business in the medium-term.'

Operational performance highlights

Project planning and engineering activity increased year-on-year mainly driven by EPIC contracts awarded in 2018 and early 2019, which require 12 to 18 months of preparation before the offshore phases commence. Offshore activity on EPIC projects was lower than the prior year period reflecting the low volume of projects awarded in 2016 and 2017.

On the West Nile Delta (GFR) Phase Two project, offshore Egypt, spools and flying leads were installed, using the flex-lay vessels *Seven Seas* and *Simar Esperança*. In the US Gulf of Mexico, the Mad Dog 2 project progressed with qualification and fabrication activities and, for the Manuel project, work continued on engineering, procurement and fabrication of the Electrically Heat Traced Flowline (EHTF). Offshore Australia, hyperbaric welding and subsequent testing was successfully completed on the Sole project. In the North Sea, *Seven Oceans* completed the first reel-lay campaign on the Nova project, offshore Norway, and fabrication progressed at Subsea 7's Pipeline Bundle facility in Scotland for the Snorre project, enabling the first Pipeline Bundle for this project to be towed out in early July.

Offshore Brazil, the four pipelay support vessels (PLSVs) on long-term day-rate contracts continued to perform well with high levels of utilisation.

Conventional activity in shallow water areas included the completion of the 20" pipeline pull-in for the PUPP project, offshore Nigeria, using *Seven Antares*, and completion of umbilical installation for the Hasbah project, offshore Saudi Arabia.

Life of Field activity included inspection, repair and maintenance (IRM) services in the US Gulf of Mexico under a new contract awarded to i-Tech 7 in the quarter and a successful weld inspection campaign using ROV-deployed technology offshore Australia, a first for the client which had previously relied on diving services for this workscope.

Renewables and Heavy Lifting activity included an oil and gas decommissioning project in the North Sea, installation of wind turbine foundations and transition modules on the Formosa I (Phase 2) project, offshore Taiwan, and cable lay activity on the Hornsea One wind farm project, offshore UK.

Vessel Utilisation was 75%, unchanged from the prior year period with lower levels of utilisation for Renewables and SURF projects offset by higher utilisation for the PLSVs and Life of Field services. At 30 June 2019, Subsea 7 had 34 vessels in its fleet, including one vessel under construction and two stacked vessels. The new-build reel-lay vessel, *Seven Vega*, was launched in May, a significant construction milestone, and is now undergoing outfitting and testing ahead of scheduled delivery in early 2020.

Financial performance highlights

Second quarter revenue was $958 million and Adjusted EBITDA was $171 million, down 17% and 8% respectively. Adjusted EBITDA margin was18%, reflecting steady performance on SURF and Conventional projects offset by low levels of activity in Renewables and Heavy Lifting.

Subsea 7's new awards and escalations totalled $395 million in the second quarter, including the Johan Sverdrup Phase Two project, offshore Norway, announced in June. The pace of offshore oil and gas awards to market is gradually increasing supported by higher tendering and early engagement activity. Larger greenfield awards often include engineering studies and integrated solutions, and so take longer to progress from tender to project sanction and award. Order backlog at 30 June 2019 was $4.6 billion.

The Group's financial and liquidity position remains strong. $204 million was returned to shareholders in the quarter through share repurchases and a special dividend. Following the completion on 11 July 2019 of the $200 million share repurchase programme announced on 28 February 2019, a further share repurchase programme for $200 million, valid for two years, was announced today. Subsea 7's activities are cash generative and the Group's priorities are to invest in the business, maintain an investment grade profile and return surplus cash to shareholders. The share repurchase programme gives the Group flexibility to balance these priorities to support long-term sustainable value creation.

Cash and cash equivalents was $420 million at the quarter end and net debt was $221 million, including $396 million of lease liabilities (IFRS 16). During the second quarter cash generated from operating activities of $72 million included a $63 million decrease in net operating liabilities reflecting timing of milestones on certain projects. The Group's $656 million Revolving Credit Facility was unutilised at 30 June 2019.

Outlook

The pace of SURF awards to market so far this year has been steady and Subsea 7 has announced four new project awards year to date. The pace of awards is expected to increase over the next 12 months as clients progress their investment decisions on the first phase of greenfield projects to be sanctioned since the downturn. The increase in market activity and subsequent tightening in key vessel availability in the medium-term is supporting improved pricing compared to the prior year. Demand for IRM services is steady, and market award activity for Conventional projects in the Middle East is strong.

The offshore renewables market continues to benefit from decreases in the levelised cost of electricity (LOCE) as the size of turbines and wind farms increases. The demand for offshore foundation and cable-lay services is expected to grow at a double digit pace annually in the medium-term, supporting the transition plans of several host governments to lower carbon energy. Near-term, new entrants in the foundation installation market are having a negative impact on pricing, but this is expected to improve as the market globalises and rebalances.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 25 July 2019

Time: 12:00 UK Time

Conference ID: 34322203#

	Conference Dial In Numbers
United Kingdom	0333 300 0804
United States	631 913 1422
Norway	23 50 02 43
International Dial In	+44 333 300 0804

Replay Facility Details

A replay facility (with conference ID 301273850#) will be available from:

Date: 25 July 2019
Time: 17:00 UK Time

	Conference Replay Dial In Numbers
International Dial In	+44 333 300 0819

For further information, please contact:

Isabel Green

Investor Relations Director

email: isabel.green@subsea7.com

Telephone: +44 20 8210 5568

Special Note Regarding Forward-Looking Statements

Certain statements made in this announcement may include ‘forward-looking statements’. These statements may be identified by the use of words like ‘anticipate’, ‘believe’, ‘could’, ‘estimate’, ‘expect’, ‘forecast’, ‘intend’, ‘may’, ‘might’, ‘plan’, ‘predict’, ‘project’, ‘scheduled’, ‘seek’, ‘should’, ‘will’, and similar expressions. The forward-looking statements reflect our current views and are subject to risks, uncertainties and assumptions. The principal risks and uncertainties which could impact the Group and the factors which could affect the actual results are described but not limited to those in the ‘Risk Management’ section in the Group’s Annual Report and Consolidated Financial Statements 2018. These factors, and others which are discussed in our public announcements, are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: actions by regulatory authorities or other third parties; our ability to recover costs on significant projects; general economic conditions and competition in the markets and businesses in which we operate; our relationship with significant clients; the outcome of legal and administrative proceedings or governmental enquiries; uncertainties inherent in operating internationally; the timely delivery of vessels on order; the impact of laws and regulations; and operating hazards, including spills and environmental damage. Many of these factors are beyond our ability to control or predict. Other unknown or unpredictable factors could also have material adverse effects on our future results. Given these factors, you should not place undue reliance on the forward-looking statements.

Second Quarter 2019

Revenue
Revenue for the quarter was $958 million, a decrease of $202 million or 17% compared to Q2 2018. This reduction was driven by lower activity levels in the Renewables and Heavy Lifting business unit, primarily due to the completion of the Beatrice wind farm project. Revenue in the SURF and Conventional business units was in line with Q2 2018 and there was an increase in activity within the Life of Field business unit.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the quarter were $171 million and 18% respectively, compared to $186 million and 16% in Q2 2018. Adjusted EBITDA in Q2 2019 benefitted by $26 million, compared to the prior year period, from the implementation of IFRS 16 ‘Leases’ on 1 January 2019. Adjusted EBITDA margin in Q2 2019 reflected good execution within the SURF and Conventional business unit, offset by lower activity levels within the Renewables and Heavy Lifting business unit.

Net operating income
Net operating income for the quarter was $45 million, compared to net operating income of $74 million in Q2 2018. Net operating income in the SURF and Conventional business unit was broadly in line with Q2 2018 at $60 million, and the Life of Field business unit recorded a net operating loss of $3 million. The Renewables and Heavy Lifting business unit recorded a net operating loss of $10 million driven by significantly lower activity levels and a competitive market environment.

Net income
Net income was $24 million in the quarter, compared to net income of $74 million in Q2 2018. This was primarily due to:

- the decrease in net operating income; and
- net foreign currency losses of $6 million in Q2 2019, compared to net foreign currency gains of $25 million in Q2 2018.

Earnings per share
Diluted earnings per share was $0.09 in Q2 2019 compared to $0.24 in Q2 2018, calculated using a weighted average number of shares of 308 million and 327 million respectively.

Cash and cash equivalents
Cash and cash equivalents was $420 million at 30 June 2019, a decrease of $246 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 $72 million

more than offset by:

- repurchases of shares at a cost of $150 million;
- purchases of property, plant and equipment of $79 million; and
- dividends paid to shareholders of the parent company of $54 million.

Borrowings and lease liabilities
Borrowings decreased to $246 million at 30 June 2019 from $253 million at 31 March 2019 due to scheduled repayments. Lease liabilities decreased to $396 million at 30 June 2019 from $412 million at 31 March 2019.

Half Year 2019

Revenue
Revenue for the half year ended 30 June 2019 was $1.8 billion, a decrease of $152 million or 8% compared to 1H 2018. The year-on-year decrease was primarily due to significantly lower activity levels in the Renewables and Heavy Lifting business unit, partially offset by an increase in the SURF and Conventional business unit.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the half year were $282 million and 16% respectively, compared to $289 million and 15% in 1H 2018. 1H 2019 benefitted by $53 million compared to the prior year period due to the implementation of IFRS 16 ‘Leases’ on 1 January 2019. Adjusted EBITDA margin in 1H 2019 reflected lower pricing on projects awarded during the downturn within the SURF and Conventional business unit and significantly lower activity levels within the Renewables and Heavy Lifting business unit.

Net operating income
Net operating income for the half year ended 30 June 2019 was $35 million, compared to a net operating income of $66 million in 1H 2018. The SURF and Conventional business unit showed a decrease in net operating income reflecting lower pricing on projects awarded during the downturn. The net operating loss in the Renewables and Heavy Lifting business unit in 1H 2019 reflected a competitive market environment combined with significantly lower activity levels compared with the prior year period.

Net Income
Net income was $5 million in 1H 2019, compared to net income of $56 million in 1H 2018. This was primarily due to:

- the decrease in net operating income;
- net foreign currency losses of $31 million in 1H 2019, compared to net foreign currency gains of $3 million in 1H 2018; and
- increased finance costs due to the implementation of IFRS 16 ‘Leases’ from 1 January 2019.

Earnings per share
Diluted earnings per share was $0.03 in 1H 2019 compared to diluted earnings per share of $0.21 in 1H 2018, calculated using a weighted average number of shares of 313 million and 327 million respectively.

Cash and cash equivalents
Cash and cash equivalents was $420 million at 30 June 2019 compared to $765 million at 31 December 2018. The decrease of $345 million during the period was mainly attributable to:

- net cash generated from operating activities of $130 million

more than offset by:

- repurchases of shares at a cost of $225 million;
- purchases of property, plant and equipment of $145 million; and
- dividends paid to shareholders of the parent company of $54 million.

Borrowings and lease liabilities
Borrowings decreased to $246 million at 30 June 2019 from $258 million at 31 December 2018 due to scheduled repayments. Lease liabilities were $396 million at 30 June 2019 following their initial recognition on the balance sheet, on implementation of IFRS 16 'Leases', as of 1 January 2019.

Business Unit Highlights

Second Quarter 2019

SURF and Conventional
Revenue for the quarter was $842 million, in line with Q2 2018.

During the quarter the West Nile Delta Phase 2 project, offshore Egypt, neared completion. Work progressed on the PUPP project, offshore Nigeria, the Snorre and Nova projects, offshore Norway, the Hasbah project, offshore Saudi Arabia, the Mad Dog 2, Manuel and Katmai projects, in the US Gulf of Mexico, and the Sole project, offshore Australia. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $60 million in the quarter, a decrease of $2 million or 3% compared to Q2 2018.

Life of Field
Revenue for Q2 2019 was $66 million, an increase of $6 million or 10% compared to Q2 2018. The increase was primarily driven by increased inspection, repair and maintenance (IRM) activities, including operations offshore Azerbaijan.

Net operating loss was $3 million in Q2 2019 compared to net operating income of $4 million in Q2 2018, reflecting the recognition of a number of discrete items, including a $2 million adverse impact due to the implementation of IFRS 16 'Leases' that will reverse in future periods.

Renewables and Heavy Lifting
Revenue was $49 million in Q2 2019 compared to $257 million in Q2 2018. The reduction in revenue was primarily due to reduced activity on the Beatrice wind farm project, offshore UK, which is operationally complete. Net operating loss was $10 million in Q2 2019 compared to a net operating profit of $5 million in Q2 2018, reflecting lower activity levels compared with the prior year period and a competitive market environment, partly mitigated by the benefits of various restructuring initiatives.

Half Year 2019

SURF and Conventional
Revenue was $1.6 billion in 1H 2019, an increase of $162 million or 11% compared to 1H 2018. The increase in revenue was driven by higher activity levels.

During the half year ended 30 June 2019, the West Nile Delta Phase 2 project, offshore Egypt, neared completion. Work progressed on the PUPP project, offshore Nigeria, the Snorre, Aerfugl and Nova projects, offshore Norway, the Hasbah project and 3PDMs project, offshore Saudi Arabia, the Mad Dog 2, Manuel and Katmai projects, in the US Gulf of Mexico, and the Sole project, offshore Australia. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $64 million in the first half of 2019, a decrease of $10 million or 14% compared to 1H 2018. The decrease in net operating income reflected lower pricing on projects awarded during the downturn.

Life of Field
Revenue for 1H 2019 was $126 million, an increase of $14 million or 12% compared to 1H 2018. The increase was primarily driven by increased IRM activities, including operations offshore Azerbaijan.

Net operating loss was $6 million in 1H 2019 compared to net operating profit of $1 million in 1H 2018 reflecting the recognition of a number of discrete items, including the impact of the implementation of IFRS 16 'Leases'.

Renewables and Heavy Lifting
Revenue was $103 million in 1H 2019 compared to $430 million in 1H 2018. The reduction in revenue was primarily due to reduced activity on the Beatrice wind farm project, offshore UK, which is operationally complete. Net operating loss was $19 million in 1H 2019 compared to a net operating income of $1 million in 1H 2018 and reflected lower activity levels compared with the prior year period and a competitive market environment, partly mitigated by the benefits of various restructuring initiatives.

Asset Development and Activities

Vessel Utilisation

Total Vessel Utilisation for the quarter was 75% which was in line with Q2 2018.

At 30 June 2019 there were 34 vessels in the fleet, comprising 31 active vessels, two stacked vessels and one vessel under construction. This was comparable to the fleet composition as at 30 June 2018.

Asset Development

During the quarter, modification work continued on the diving support vessel, *Seven Pegasus,* which was acquired in Q1 2019. The vessel is expected to commence operations in Q3 2019. The Group's new reel-lay vessel, *Seven Vega*, was launched in May and is expected to commence operations in 2020, after installation of pipelaying equipment, commissioning and sea trials.

Backlog

At 30 June 2019 backlog was $4.6 billion, a decrease of $0.6 billion compared with 31 March 2019. Order intake, including escalations, totalling $0.4 billion was recorded in the quarter. Adverse foreign exchange movements of approximately $40 million were recognised during the quarter. New awards included the Johan Sverdrup Phase Two project, offshore Norway.

$3.7 billion of the backlog at 30 June 2019 related to the SURF and Conventional business unit (which included $0.6 billion related to long-term day-rate contracts for PLSV's in Brazil), $0.6 billion related to the Life of Field business unit and $0.3 billion related to the Renewables and Heavy Lifting business unit. $1.6 billion of this backlog is expected to be executed in 2019, $2.2 billion in 2020 and $0.8 billion in 2021 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Risks and uncertainties

The principal risks and uncertainties which could materially adversely impact the Group's reputation, operations and/or financial performance and position are noted on pages 18 to 24 of Subsea 7 S.A.'s Annual Report and Consolidated Financial Statements 2018. The Executive Management Team has considered these principal risks and uncertainties and concluded that these have not changed significantly in the six month period to 30 June 2019.

Responsibility statement

We confirm that, to the best of our knowledge, the financial statements for the period 1 January 2019 to 30 June 2019 have been prepared in accordance with current applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and the Group taken as a whole. We also confirm that, to the best of our knowledge, this report together with the Subsea 7 S.A. Annual Report and Consolidated Financial Statements 2018 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties facing the Group.

Subsea 7 S.A.

Condensed Consolidated Income Statement

(in $ millions)	Second Quarter		Half Year	
	Q2 2019 Unaudited	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Revenue	**957.9**	1,159.5	**1,817.2**	1,968.7
Operating expenses	**(849.1)**	(1,022.8)	**(1,660.5)**	(1,758.5)
Gross profit	**108.8**	136.7	**156.7**	210.2
Administrative expenses	**(61.4)**	(65.7)	**(119.8)**	(140.0)
Share of net income of associates and joint ventures	**(2.5)**	2.9	**(2.2)**	(4.1)
Net operating income	**44.9**	73.9	**34.7**	66.1
Finance income	**4.0**	3.8	**8.1**	8.7
Other gains and losses	**(5.7)**	27.2	**(22.6)**	4.6
Finance costs	**(7.1)**	(4.1)	**(13.0)**	(7.9)
Income before taxes	**36.1**	100.8	**7.2**	71.5
Taxation	**(12.6)**	(27.0)	**(2.6)**	(15.3)
Net income	**23.5**	73.8	**4.6**	56.2
Net income attributable to:				
Shareholders of the parent company	**27.5**	78.4	**8.4**	68.0
Non-controlling interests	**(4.0)**	(4.6)	**(3.8)**	(11.8)
	23.5	73.8	**4.6**	56.2

Earnings per share	**$ per share**	$ per share	**$ per share**	$ per share
Basic	**0.09**	0.24	**0.03**	0.21
Diluted[(a)]	**0.09**	0.24	**0.03**	0.21

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

Subsea 7 S.A.

Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Second Quarter		Half Year	
	Q2 2019 Unaudited	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Net income	**23.5**	73.8	**4.6**	56.2
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	**(38.1)**	(107.2)	**14.5**	(25.2)
Reclassification adjustments relating to disposal of subsidiary	**–**	–	**1.2**	–
Tax relating to components of other comprehensive income which may be reclassified	**(0.3)**	(2.6)	**(1.8)**	(0.7)
Items that will not be reclassified to the income statement in subsequent periods:				
Tax relating to remeasurement gains on defined benefit pension schemes	**(0.4)**	–	**(0.4)**	–
Other comprehensive (loss)/income	**(38.8)**	(109.8)	**13.5**	(25.9)
Total comprehensive (loss)/income	**(15.3)**	(36.0)	**18.1**	30.3
Total comprehensive (loss)/income attributable to:				
Shareholders of the parent company	**(11.3)**	(30.2)	**21.9**	42.4
Non-controlling interests	**(4.0)**	(5.8)	**(3.8)**	(12.1)
	(15.3)	(36.0)	**18.1**	30.3

Subsea 7 S.A.

Condensed Consolidated Balance Sheet

As at (in $ millions)	**30 June 2019 Unaudited**	31 Dec 2018 Audited
Assets		
Non-current assets		
Goodwill	**779.2**	751.3
Intangible assets	**30.4**	31.9
Property, plant and equipment	**4,569.2**	4,568.9
Right-of-use assets	**383.2**	–
Interest in associates and joint ventures	**21.6**	45.2
Advances and receivables	**35.0**	38.4
Derivative financial instruments	**0.2**	0.7
Other financial assets	**7.2**	7.2
Retirement benefit assets	**0.1**	0.1
Deferred tax assets	**27.6**	28.9
	5,853.7	5,472.6
Current assets		
Inventories	**36.6**	32.0
Trade and other receivables	**687.4**	607.9
Derivative financial instruments	**2.9**	10.5
Other financial assets	**–**	15.9
Assets classified as held for sale	**0.3**	0.4
Construction contracts – assets	**404.7**	494.9
Other accrued income and prepaid expenses	**236.9**	165.7
Restricted cash	**4.2**	4.1
Cash and cash equivalents	**420.1**	764.9
	1,793.1	2,096.3
Total assets	**7,646.8**	7,568.9
Equity		
Issued share capital	**610.7**	654.7
Treasury shares	**(59.6)**	(95.0)
Paid in surplus	**2,558.5**	2,826.6
Translation reserve	**(604.5)**	(618.4)
Other reserves	**(19.5)**	(26.3)
Retained earnings	**2,942.8**	2,941.8
Equity attributable to shareholders of the parent company	**5,428.4**	5,683.4
Non-controlling interests	**29.6**	38.4
Total equity	**5,458.0**	5,721.8
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**221.3**	233.6
Non-current lease liabilities	**295.6**	–
Retirement benefit obligations	**14.2**	30.9
Deferred tax liabilities	**38.0**	39.5
Provisions	**96.4**	98.7
Contingent liability recognised	**5.7**	6.0
Derivative financial instruments	**2.9**	3.0
Other non-current liabilities	**29.9**	34.6
	704.0	446.3
Current liabilities		
Trade and other liabilities	**1,004.9**	978.1
Derivative financial instruments	**10.5**	4.1
Current tax liabilities	**77.9**	103.4
Current portion of borrowings	**24.5**	24.6
Current lease liabilities	**100.0**	–
Provisions	**80.0**	117.4
Construction contracts – liabilities	**166.4**	167.8
Deferred revenue	**20.6**	5.4
	1,484.8	1,400.8
Total liabilities	**2,188.8**	1,847.1
Total equity and liabilities	**7,646.8**	7,568.9

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

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

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2018

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 31 December 2017	**654.7**	**(19.7)**	**3,033.7**	**(523.6)**	**(29.3)**	**2,776.8**	**5,892.6**	**48.4**	**5,941.0**
Adjustment on implementation of IFRS 9 and IFRS 15	–	–	–	–	–	1.0	1.0	–	1.0
Balance at 1 January 2018	**654.7**	**(19.7)**	**3,033.7**	**(523.6)**	**(29.3)**	**2,777.8**	**5,893.6**	**48.4**	**5,942.0**
Comprehensive income/(loss)									
Net income/(loss)	–	–	–	–	–	68.0	68.0	(11.8)	56.2
Foreign currency translation	–	–	–	(24.9)	–	–	(24.9)	(0.3)	(25.2)
Tax relating to components of other comprehensive income	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Total comprehensive (loss)/income	**–**	**–**	**–**	**(25.6)**	**–**	**68.0**	**42.4**	**(12.1)**	**30.3**
Transactions with owners									
Shares repurchased	–	(8.8)	–	–	–	–	(8.8)	–	(8.8)
Dividend declared	–	–	(204.3)	–	–	–	(204.3)	–	(204.3)
Share-based payments	–	–	2.4	–	–	–	2.4	–	2.4
Shares reallocated relating to share-based payments	–	1.3	–	–	–	–	1.3	–	1.3
Loss on reallocation of treasury shares	–	–	–	–	–	(1.0)	(1.0)	–	(1.0)
Total transactions with owners	**–**	**(7.5)**	**(201.9)**	**–**	**–**	**(1.0)**	**(210.4)**	**–**	**(210.4)**
Balance at 30 June 2018	**654.7**	**(27.2)**	**2,831.8**	**(549.2)**	**(29.3)**	**2,844.8**	**5,725.6**	**36.3**	**5,761.9**

Subsea 7 S.A.
Condensed Consolidated Cash Flow Statement

(in $ millions)	Half Year 1H 2019 Unaudited	1H 2018 Unaudited
Net cash generated from operating activities	**129.7**	47.7
Cash flows from investing activities		
Net proceeds from disposal of property, plant and equipment	**(0.4)**	2.8
Purchases of property, plant and equipment	**(145.1)**	(123.8)
Purchases of intangible assets	**(4.0)**	(2.0)
Loans to associates and joint ventures	**(0.2)**	(2.3)
Loan repayments from joint ventures	**–**	0.2
Interest received	**8.1**	8.7
Acquisition of businesses (net of cash and borrowings acquired)	**(8.0)**	(169.0)
Acquisition of interest in joint venture	**–**	(18.9)
Proceeds from disposal of subsidiary	**4.6**	–
Proceeds from sale of other financial assets	**21.4**	–
Net cash used in investing activities	**(123.6)**	(304.3)
Cash flows from financing activities		
Interest paid	**(5.8)**	(7.2)
Repayment of borrowings	**(13.0)**	(12.3)
Proceeds from reissuance of ordinary shares	**–**	0.5
Cost of share repurchases	**(224.7)**	(8.7)
Payments related to lease liabilities	**(53.5)**	–
Dividends paid to equity shareholders of the parent company	**(53.8)**	(204.3)
Dividends paid to non-controlling interests	**(0.4)**	–
Net cash used in financing activities	**(351.2)**	(232.0)
Net decrease in cash and cash equivalents	**(345.1)**	(488.6)
Cash and cash equivalents at beginning of year	**764.9**	1,109.1
Increase in restricted cash	**–**	1.0
Effect of foreign exchange rate movements on cash and cash equivalents	**0.3**	(7.9)
Cash and cash equivalents at end of period	**420.1**	613.6

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 24 July 2019.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period from 1 January 2019 to 30 June 2019 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 2018 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Condensed Consolidated Financial Statements are unaudited.

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 2018 except as detailed below.

The following International Financial Reporting Standards (IFRS) have been adopted by the Group for the financial year beginning 1 January 2019.

IFRS 16 'Leases'

IFRS 16 replaced IAS 17 'Leases' and established new recognition, measurement and disclosure requirements for both parties to a lease contract. IFRS 16 is effective for reporting periods beginning on or after 1 January 2019. The Group adopted IFRS 16 on the effective date using a modified retrospective approach and did not restate comparative information.

As a result of the adoption of IFRS 16 the Group has recognised right-of use assets and lease liabilities within the Consolidated Balance Sheet. Under IFRS 16 a lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. IFRS 16 eliminates the classification of a lease as either an operating lease or finance lease for lessees and introduces a single model for all leases with the exception of leases for low-value assets or for periods of 12 months or less.

At 31 December 2018 the Group had $395.6 million of commitments under operating leases for vessels, land and buildings and equipment. On implementation, the lease liabilities were measured as the present value of the remaining committed lease payments using a discount rate equal to the incremental borrowing rates specific to each lease. The weighted-average incremental borrowing rate used to measure lease liabilities at the date of initial application was 5.21%. As permitted by IFRS 16, the Group opted to measure the right-of-use asset at an amount equal to the liability at the implementation date. No adjustment was made for accrued or prepaid lease obligations on the grounds of materiality.

The impact on the Consolidated Balance Sheet at the date of implementation was as follows:

As at 1 January 2019 (in $ millions)	IFRS 16	Previous IFRS	Impact
Consolidated Balance Sheet:			
Right-of-use assets	**351.1**	**–**	**351.1**
Lease liabilities	**(357.1)**	**–**	**(357.1)**
Other provisions	**(63.4)**	**(69.4)**	**6.0**

On initial implementation of IFRS 16, management has opted to apply practical expedients and has:

- applied the requirements of IFRS 16 to all contracts previously identified as leases under IAS 17 'Leases';
- excluded initial direct costs from measurement of the right-of-use asset;
- applied discount rates on a portfolio basis where leases are similar in nature and have similar remaining lease terms;
- relied upon the previous assessment of whether a lease is onerous as an alternative to performing an impairment review. Where applicable the carrying amount of the right-of-use asset has been adjusted by the carrying amount of the onerous lease provision. This resulted in a $6.0 million reduction in the right-of-use asset recognised at implementation; and
- applied the short-term lease exemption to all leases with durations which terminate within 12 months of the implementation date, with the exception of vessel leases which at inception were greater than 12 months and which are in substance long-term agreements.

The impact on the Consolidated Income Statement, for the six month period ending 30 June 2019, was to reduce operating lease expense by $53.3 million, recognise lease amortisation charges of $51.4 million and lease finance costs of $8.5 million.

No other new IFRSs were adopted by the Group for the period beginning 1 January 2019. Amendments to existing IFRSs, issued with an effective date of 1 January 2019 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 2018, 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 believe 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 audited Consolidated Financial Statements for the year ended 31 December 2018:

- 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. 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. The Eidesvik Seven joint venture is reported within this segment.

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 farm foundations and inter-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 June 2019

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

For the three months ended 30 June 2018

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	676.9	0.5	256.8	–	934.2
Day-rate projects	165.3	60.0	–	–	225.3
	842.2	60.5	256.8	–	1,159.5
Net operating income	61.6	4.4	4.8	3.1	73.9
Finance income					3.8
Other gains and losses					27.2
Finance costs					(4.1)
Income before taxes					100.8

For the six months ended 30 June 2019

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

For the six months ended 30 June 2018

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	1,077.4	0.7	430.2	–	1,508.3
Day-rate projects	349.1	111.3	–	–	460.4
	1,426.5	112.0	430.2	–	1,968.7
Net operating income/(loss)	74.4	0.8	0.5	(9.6)	66.1
Finance income					8.7
Other gains and losses					4.6
Finance costs					(7.9)
Income before taxes					71.5

7. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net income 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 per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive common shares.

The income and share data used in the calculation of basic and diluted earnings per share were as follows:

	Second Quarter		Half Year	
For the period (in $ millions)	**Q2 2019 Unaudited**	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Net income attributable to shareholders of the parent company	**27.5**	78.4	**8.4**	68.0
Earnings used in the calculation of diluted earnings per share	**27.5**	78.4	**8.4**	68.0

	Second Quarter		Half Year	
For the period (number of shares)	**Q2 2019 Unaudited**	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	**307,308,254**	325,900,131	**311,412,754**	326,209,237
Share options and performance shares	**1,178,611**	1,225,455	**1,163,218**	1,239,593
Weighted average number of common shares used in the calculation of diluted earnings per share	**308,486,865**	327,125,586	**312,575,972**	327,448,830

	Second Quarter		Half Year	
For the period (in $ per share)	**Q2 2019 Unaudited**	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Basic earnings per share	**0.09**	0.24	**0.03**	0.21
Diluted earnings per share	**0.09**	0.24	**0.03**	0.21

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

	Second Quarter		Half Year	
For the period (number of shares)	**Q2 2019 Unaudited**	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Share options and performance shares	**788,965**	606,147	**808,094**	603,064

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 to Adjusted EBITDA and Adjusted EBITDA margin:

	Second Quarter		Half Year	
For the period (in $ millions)	**Q2 2019 Unaudited**	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Net operating income	**44.9**	73.9	**34.7**	66.1
Depreciation, amortisation and mobilisation	**125.8**	111.1	**247.1**	222.0
Impairment of property, plant and equipment	**–**	0.5	**–**	0.5
Adjusted EBITDA	**170.7**	185.5	**281.8**	288.6
Revenue	**957.9**	1,159.5	**1,817.2**	1,968.7
Adjusted EBITDA margin	**17.8%**	16.0%	**15.5%**	14.7%

Reconciliation of net income to Adjusted EBITDA and Adjusted EBITDA margin:

	Second Quarter		Half Year	
For the period (in $ millions)	**Q2 2019 Unaudited**	Q2 2018 Unaudited	**1H 2019 Unaudited**	1H 2018 Unaudited
Net income	**23.5**	73.8	**4.6**	56.2
Depreciation, amortisation and mobilisation	**125.8**	111.1	**247.1**	222.0
Impairment of property, plant and equipment	**–**	0.5	**–**	0.5
Finance income	**(4.0)**	(3.8)	**(8.1)**	(8.7)
Other gains and losses	**5.7**	(27.2)	**22.6**	(4.6)
Finance costs	**7.1**	4.1	**13.0**	7.9
Taxation	**12.6**	27.0	**2.6**	15.3
Adjusted EBITDA	**170.7**	185.5	**281.8**	288.6
Revenue	**957.9**	1,159.5	**1,817.2**	1,968.7
Adjusted EBITDA margin	**17.8%**	16.0%	**15.5%**	14.7%

9. Goodwill

The movement in goodwill during the period was as follows:

	Half Year	
(in $ millions)	**1H 2019 Unaudited**	1H 2018 Unaudited
At year beginning	**751.3**	700.8
Adjustments to identifiable net assets at fair value subsequent to initial recognition	**–**	2.4
Acquired in business combination	**25.6**	70.2
Exchange differences	**2.3**	(4.1)
At period end	**779.2**	769.3

On 13 March 2019, a direct subsidiary of Subsea 7 S.A. acquired the remaining 40% of the voting shares of Xodus Group (Holdings) Limited, (Xodus). Prior to the acquisition, the Group held a 60% interest in Xodus and the transaction was treated as a business combination achieved in stages. The transaction resulted in the recognition of a provisional amount of goodwill of $25.6 million.

10. Treasury shares

During the second quarter, 7,644 shares were used to satisfy share-based awards. At 30 June 2019, the Group directly held 5,155,718 shares (Q1 2019: 14,795,944) as treasury shares, representing 1.69% (Q1 2019: 4.52%) of the total number of issued shares.

During the second quarter, 16,080,718 shares held in treasury were cancelled in accordance with the delegation of authority given to the Board at the Extraordinary General Meeting of shareholders held on 27 November 2014 and 5,919,282 shares held in treasury were cancelled in accordance with the delegation of authority given to the Board at the Extraordinary General Meeting of shareholders held on 17 April 2019.

11. Share repurchase programme

During the second quarter, 12,367,418 shares were repurchased for a total consideration of $150.1 million under the Group's $200 million share repurchase programme initiated in February 2019. At 30 June 2019, the Group had repurchased a cumulative 14,382,338 shares for a total consideration of $174.9 million under the Group's $200 million February 2019 programme.

12. Commitments and contingent liabilities

Commitments

At 30 June 2019, the Group had significant contractual commitments totalling $127.6 million, mainly in relation to the remaining construction of *Seven Vega*, a new reel-lay vessel and associated pipe-lay equipment.

Contingent liabilities not recognised in the Consolidated Balance Sheet

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

One of the amounts contested by the Group is in respect of an audit by Rivers State, Nigeria of the Group's Nigerian operations in the years 2010 to 2014, with particular regard to payroll taxes for offshore personnel. At 30 June 2019, 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 $94.8 million (31 December 2018: NGN 34,190 million, equivalent to $94.2 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 $9.3 million. The Group does not believe the likelihood of payments is probable and no provision has been recognised in the Consolidated Balance Sheet in respect of the assessments resulting from the Rivers State audits.

Between 2009 and 2018, the Group's Brazilian businesses were audited and formally assessed for ICMS and federal taxes (including import duty) by the Brazilian state and federal tax authorities. The amount assessed, including penalties and interest, at 30 June 2019 amounted to BRL 764.9 million, equivalent to $198.9 million (31 December 2018: BRL 750.7 million, equivalent to $192.6 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, the Group's Brazilian business received a number of labour and civil tax claims. The amount assessed at 30 June 2019 amounted to BRL 184.8 million, equivalent to $48.1 million (31 December 2018: BRL 136.4 million, equivalent to $35.0 million.) The Group has challenged these claims. 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.

Contingent liabilities recognised in the Consolidated Balance Sheet

As part of accounting for the business combination with Subsea 7 Inc., IFRS 3 'Business combinations' required the Group to recognise as a provision, as of the acquisition date, the fair value of contingent liabilities assumed if there was a present obligation that arose from past events, even where payment was not probable. The value of the provision recognised within the Consolidated Balance Sheet at 30 June 2019 was $4.2 million (31 December 2018: $4.1 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 'Business combinations' required the Group to recognise a provision in respect of contingent consideration payable to a third party following the acquisition of intangible assets in 2009. The value of the provision recognised within the Consolidated Balance Sheet at 30 June 2019 was $1.0 million (31 December 2018: $1.9 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.

13. Cash flow from operating activities

For the period ended (in $ millions)	Half Year 1H 2019 Unaudited	1H 2018 Unaudited
Cash flow from operating activities:		
Income before taxes	**7.2**	71.5
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**185.2**	201.1
Impairment of property, plant and equipment	**–**	0.5
Amortisation of right-of-use assets	**51.4**	–
Amortisation of intangible assets	**5.8**	17.0
Amortisation of mobilisation costs	**4.7**	3.9
Adjustments for investing and financing items:		
Share of net income of associates and joint ventures	**2.2**	4.1
Finance income	**(8.1)**	(8.7)
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)**	–
Loss/(profit) on disposal of property, plant and equipment	**0.2**	(1.4)
Finance costs	**13.0**	7.9
Adjustments for equity items:		
Reclassification of exchange differences relating to the disposal of a subsidiary	**1.2**	–
Share-based payments	**2.4**	2.4
	256.5	298.3
Changes in operating assets and liabilities:		
Increase in inventories	**(4.5)**	(1.3)
Increase in operating receivables	**(16.2)**	(325.6)
(Decrease)/increase in operating liabilities	**(36.3)**	128.2
	(57.0)	(198.7)
Income taxes paid	**(69.8)**	(51.9)
Net cash generated from operating activities	**129.7**	47.7

14. Fair value and financial instruments

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

Borrowings – senior secured facility

The fair value of the senior secured facility is determined by matching the maturity profile of the amounts utilised under the facility to market interest rates available to the Group for borrowings with similar security, maturity and repayment profiles. At 30 June 2019 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 IFRSs require at the end of each reporting period and non-recurring fair value measurements are those that IFRSs 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:

As at (in $ millions)	**2019 30 Jun Level 1**	**2019 30 Jun Level 2**	**2019 30 Jun Level 3**	2018 31 Dec Level 1	2018 31 Dec Level 2	2018 31 Dec Level 3
Recurring fair value measurements						
Financial assets measured at fair value through profit or loss:						
Derivative instruments	**–**	**3.1**	**–**	–	11.2	–
Other financial assets	**–**	**–**	**–**	15.9	–	–
Financial liabilities measured at fair value through profit or loss:						
Derivative instruments	**–**	**(13.4)**	**–**	–	(7.1)	–
Contingent consideration	**–**	**–**	**(46.4)**	–	–	(47.7)

During the period ended 30 June 2019 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 was calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.
- Other financial assets
  Other financial assets comprise investments in non-strategic equity securities disclosed as Other financial assets within Current assets on the Consolidated Balance Sheet. Fair value was determined using quoted prices.
- 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 and liabilities 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 are 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.

15. Post balance sheet events

Share repurchase programme

Between 1 July 2019 and 11 July 2019 the Group repurchased 2,133,500 shares for a consideration of $25.0 million as part of the $200 million share repurchase programme announced in February 2019. On 11 July 2019, the Group completed the share repurchase programme.

On 24 July 2019, the Board of Directors authorised a new share repurchase programme of up to $200 million, valid for two years. This reflects the Group's solid financial and liquidity position and is supported by the recovering offshore oil and gas market. The repurchased shares will be held in treasury and will be cancelled or used to fulfil obligations under the Group's employee share-based payment schemes.