Subsea 7 S.A. Announces Third Quarter 2019 Results

Luxembourg – 7 November 2019 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY, ISIN: LU0075646355) announced today results for the third quarter which ended 30 September 2019.

Third Quarter highlights

- Adjusted EBITDA of $181 million and margin of 19% reflected good progress on certain projects but lower activity in Renewables and Heavy Lifting
- Order intake totalled $1.4 billion with six awards announced in the quarter; order backlog increased to $4.9 billion at the quarter end, of which $2.6 billion is booked for execution in 2020
- Solid financial and liquidity position with cash and cash equivalents of $367 million and net debt of $241 million including $368 million related to IFRS 16 lease liabilities at 30 September 2019
- New guidance: 2020 Revenue and Adjusted EBITDA higher than 2019 driven by a steady increase of activity anticipated in all our end markets

	Third Quarter		Nine Months Ended	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**Q3 2019 Unaudited**	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Revenue	**951**	1,082	**2,768**	3,051
Adjusted EBITDA[(a)] (unaudited)	**181**	217	**462**	506
Adjusted EBITDA margin[(a)] (unaudited)	**19%**	20%	**17%**	17%
Net operating income	**59**	111	**93**	177
Net income	**42**	76	**47**	133
Earnings per share – in $ per share				
Basic	**0.15**	0.23	**0.17**	0.44
Diluted[(b)]	**0.15**	0.23	**0.17**	0.44

As at (in $ millions)	**30 Sep 2019 Unaudited**	30 Jun 2019 Unaudited
Backlog - unaudited[(c)]	**4,917**	4,594
Cash and cash equivalents	**367**	420
Borrowings	**(240)**	(246)
Net cash (excluding IFRS 16 'Leases' liabilities)	**127**	174
Net debt (including IFRS 16 'Leases' liabilities)	**(241)**	(221)

(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 for the third quarter and nine months ended 30 Sep 2019 benefitted by $27 million and $81 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 September 2019 and 30 June 2019 is unaudited and is a non-IFRS measure.

Jean Cahuzac, Chief Executive Officer, said:
'Our capability in early engagement, engineering and integrated services is gaining traction in a market that continues to recover gradually. Despite the environment of sustained lower energy prices and disciplined capital investment by our clients, our order intake has been strong in recent months, with $1.4 billion of new awards and escalations in the third quarter. The tenders and studies we have engaged in are now converting into FEED and EPIC projects with creative and cost-effective solutions that utilise new technology and integrated SPS-SURF collaboration.

Our investments through the cycle, in assets, technology and selective consolidation have kept us firmly in the top tier. The recent acquisition of 4Subsea with its life of field expertise in integrity management, data and digital analytics, continues our strategy to lead the way in all our focus markets.

We are well positioned for our next chapter, supported by recovering oil and gas markets, growth in offshore wind and with an increasing focus on energy transition. As some of you may be aware, I will retire at the end of the year. I have great confidence that Subsea 7 has the right leadership in place to navigate the risks and grasp the opportunities ahead.'

Third quarter 2019 operational performance

SURF and Conventional projects progressed well in the third quarter. Offshore Norway, the first of three Pipeline Bundles was installed on the Snorre project. Also offshore Norway, the latest LinerBridge® technology was used in the largest pipe-in-pipe flowline installed to date on the Nova project and on the fast-track Askeladd project 42 kilometres of corrosion resistant alloy (CRA) pipe was installed using the pipelay vessel *Seven Borealis.* In the UK sector of the North Sea, the Alligin project completed tie-ins and commissioning.

In the US Gulf of Mexico, the Mad Dog phase 2 project progressed with fabrication ahead of the offshore campaign planned for 2020, and fabrication and welding activities continued on the Manuel project. Offshore Egypt, the Burullus 9B project was completed and first gas was achieved in October. PUPP, a conventional project offshore Nigeria, was substantially completed in the quarter. The four PLSV's operating on long-term day-rate contracts, offshore Brazil, performed well with high levels of utilisation.

Renewables and Heavy Lifting activity remained low compared to the prior year period reflecting the timing of awards and increased competition for foundation installation projects. Offshore Taiwan, installation of foundations and transition modules was completed on the Formosa 1 (Phase 2) project using the heavy lifting vessel *Seaway Yudin* and preparation continued on the Yunlin project prior to cable installation planned in 2020.

In the Life of Field business unit, activity in the US Gulf of Mexico was encouraging in the quarter with increased operations for both the *Harvey Intervention* and *Grant Candies* IRM vessels. Utilisation of IRM vessels in the North Sea improved compared to the prior quarter.

Total Vessel Utilisation was 78%, seven percentage points lower than the prior year period with substantially lower utilisation of the Renewable and Heavy Lifting vessels. At 30 September 2019 there were 35 vessels in the fleet including seven chartered vessels, two stacked vessels and one vessel under construction.

Financial highlights for the third quarter 2019

Third quarter revenue of $951 million and Adjusted EBITDA of $181 million were 12% and 17% lower respectively compared to the prior year period. Adjusted EBITDA margin of 19% reflected good progress on certain projects and continued cost discipline, partly offset by low levels of activity in the Renewables and Heavy Lifting business unit. Diluted earnings per share was $0.15, a decrease of 35% on the prior year period, adversely impacted by a higher effective tax rate.

Order intake totalled $1.4 billion during the third quarter, not including an adverse foreign exchange movement of approximately $80 million. Following the completion of the offshore execution of the Hasbah project, backlog for the Middle East was replenished in the quarter with four packages of work awarded by Saudi Aramco, comprising the substantial Marjan 2 project and three packages relating to the 28 Jackets project. Other new awards included the Lapa NE project offshore Brazil, the Europipe II project offshore Norway, the Hornsea 2 wind farm project offshore UK and the ACE project offshore Azerbaijan. Order backlog at the end of September was $4.9 billion, of which $2.6 billion is expected to be executed in 2020. The book-to-bill ratio was 1.4 for the third quarter and 1.0 for the first nine months of 2019, and remains on track to achieve 1.0 for the full year.

Subsea 7 has a solid financial and liquidity position supported by cash and cash equivalents of $367 million at 30 September 2019 and a $656 million Revolving Credit Facility that remains unutilised. Cash and cash equivalents decreased by $53 million in the quarter partly due to $28 million invested in capital expenditure and $25 million spent on share repurchases. Cash from operations was $65 million, with a $112 million increase in net operating assets reflecting timing of milestones on certain projects. Net debt was $241 million, including $368 million related to IFRS 16 ‘Leases’ liabilities.

Outlook

The steady increase in deepwater oil and gas market activity this year has supported improved pricing compared to 2018. Demand for Conventional services in the Middle East remains strong.

Demand for offshore wind farm installation services is growing at an annualised double-digit pace supporting the energy transition plans of host governments in Europe, Asia and North America to lower carbon sources of energy. Near-term, an increase in competition for heavy lifting services for foundation installation continues to negatively impact pricing, but this is expected to improve in the longer term as the market globalises and rebalances.

Guidance for full year 2019 has been revised due to the timing of progress on certain projects and we now expect revenue to decrease slightly compared to the full year 2018. Guidance for 2019 is unchanged with respect to Adjusted EBITDA being lower than in 2018 and net operating income being positive.

2019 is expected to represent the low point in the cycle for the Group’s profitability. Revenue and Adjusted EBITDA are both expected to be higher in 2020, driven by an increase in activity in our key markets. The percentage margin will take longer to recover as projects awarded with low pricing in prior years progress to offshore execution. Looking ahead, demand for offshore wind farm construction services is expected to increase and, as larger greenfield oil and gas projects are sanctioned, a continued gradual recovery is expected for deepwater SURF activity.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 7 November 2019

Time: 12:00 UK Time

Conference ID: 13665727#

	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 301273863#) will be available from:

Date: 7 November 2019
Time: 17:00 UK Time

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

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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.

Third Quarter 2019

Revenue

Revenue for the quarter was $951 million, a decrease of $132 million or 12% compared to Q3 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 and Life of Field business units was in line with Q3 2018.

Adjusted EBITDA

Adjusted EBITDA and Adjusted EBITDA margin for the quarter were $181 million and 19% respectively, compared to $217 million and 20% in Q3 2018. Adjusted EBITDA in Q3 2019 benefitted by $27 million, compared to the prior year period, from the implementation of IFRS 16 'Leases' on 1 January 2019. Adjusted EBITDA margin in Q3 2019 reflected good execution within the SURF and Conventional and Life of Field business units, offset by lower activity levels within the Renewables and Heavy Lifting business unit.

Net operating income

Net operating income for the quarter was $59 million, compared to net operating income of $111 million in Q3 2018. Net operating income in the SURF and Conventional business unit was $62 million in Q3 2019 compared to $93 million in Q3 2018, reflecting lower pricing on projects awarded during the downturn. The Life of Field business unit recorded a net operating income of $6 million. The Renewables and Heavy Lifting business unit recorded a net operating loss of $8 million driven by significantly lower activity levels and a competitive market environment.

Net income

Net income was $42 million in the quarter, compared to net income of $76 million in Q3 2018. The reduction was primarily due to:

- the decrease in net operating income

partially offset by:

- net foreign currency gains of $12 million in Q3 2019, compared to net foreign currency losses of less than $1 million in Q3 2018.

The effective tax rate for Q3 2019 was 40% compared with 31% in the prior year period, reflecting changes in jurisdictions where the Group generates taxable income, together with the impact of an increase in revenue-based taxes incurred compared with the prior year period.

Earnings per share

Diluted earnings per share was $0.15 in Q3 2019 compared to $0.23 in Q3 2018, calculated using a weighted average number of shares of 299 million and 328 million respectively.

Cash and cash equivalents

Cash and cash equivalents was $367 million at 30 September 2019, a decrease of $53 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 $65 million

more than offset by:

- payment of contingent consideration in respect of acquisitions of $30 million;
- payments related to lease liabilities of $27 million;
- repurchases of shares at a cost of $25 million; and
- purchases of property, plant and equipment of $25 million.

Borrowings and lease liabilities

Borrowings decreased to $240 million at 30 September 2019 from $246 million at 30 June 2019 due to scheduled repayments. Lease liabilities decreased to $368 million at 30 September 2019 from $396 million at 30 June 2019, the decrease being mainly driven by scheduled lease payments.

Nine months ended 30 September 2019

Revenue

Revenue for the nine months ended 30 September 2019 was $2.8 billion, a decrease of $0.3 billion or 9% compared to the equivalent period in 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 nine months ended 30 September 2019 were $462 million and 17% respectively, compared to $506 million and 17% in 2018. The nine months ended 30 September 2019 benefitted by $81 million compared to the prior year period due to the implementation of IFRS 16 'Leases' on 1 January 2019. Adjusted EBITDA margin in 2019 reflected lower pricing on projects awarded during the downturn within the SURF and Conventional business unit and significantly lower activity levels within the Renewables and Heavy Lifting business unit.

Net operating income

Net operating income for the nine months ended 30 September 2019 was $93 million, compared to net operating income of $177 million in 2018. The SURF and Conventional business unit recognised 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 2019 reflected a competitive market environment combined with significantly lower activity levels compared with the prior year period.

Net Income

Net income was $47 million for the nine months ended 30 September 2019, compared to net income of $133 million for the prior year period. The reduction was primarily due to:

- the decrease in net operating income;

- net foreign currency losses of $18 million for the nine months ended 30 September 2019, compared to net foreign currency gains of $3 million in 2018; and
- increased finance costs in 2019 due to the implementation of IFRS 16 'Leases' from 1 January 2019.

The effective tax rate for the nine months ended 30 September 2019 was 40% compared with 27% in the prior year period, reflecting changes in jurisdictions where the Group generates taxable income and an increase in revenue-based taxes incurred compared with the prior year.

Earnings per share
Diluted earnings per share was $0.17 for the nine months ended 30 September 2019 compared to diluted earnings per share of $0.44 in 2018, calculated using a weighted average number of shares of 308 million and 328 million respectively.

Cash and cash equivalents
Cash and cash equivalents were $367 million at 30 September 2019 compared to $765 million at 31 December 2018. The decrease of $398 million during the period was mainly attributable to:

- repurchases of shares at a cost of $250 million;
- purchases of property, plant and equipment of $170 million;
- payments related to lease liabilities of $81 million;
- dividends paid to shareholders of the parent company of $54 million

partially offset by:

- net cash generated from operating activities of $195 million.

Borrowings and lease liabilities
Borrowings decreased to $240 million at 30 September 2019 from $258 million at 31 December 2018 due to scheduled repayments. Lease liabilities were $368 million at 30 September 2019, following their initial recognition on the balance sheet as of 1 January 2019, on implementation of IFRS 16 'Leases'.

Business Unit Highlights

Third Quarter 2019

SURF and Conventional
Revenue for the third quarter was $826 million, a decrease of $40 million or 5% compared to Q3 2018.

During the quarter, the West Nile Delta GFR field development, offshore Egypt, the PUPP and Asabo Flare Restoration projects, offshore Nigeria, the Hasbah project, offshore Saudi Arabia, the Storr and Alligin projects, offshore UK were completed or reached near completion. Work progressed on the Burullus 9B project, offshore Egypt, the Zinia project, offshore Angola and the Mad Dog 2, Katmai and Manuel projects in the US Gulf of Mexico, the Snorre, Nova and Oda projects, offshore Norway and the Arran and Penguins projects offshore UK. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $62 million in the quarter, a decrease of $30 million or 33% compared to Q3 2018. The decrease in net operating income reflected lower pricing on projects awarded during the downturn.

Life of Field
Revenue for Q3 2019 was $70 million, an increase of $4 million or 6% compared to Q3 2018. The increase was primarily driven by greater levels of Inspection, Repair and Maintenance activities.

Net operating income was $6 million in Q3 2019 compared to $4 million in Q3 2018, reflecting higher activity levels.

Renewables and Heavy Lifting
Revenue was $55 million in Q3 2019 compared to $152 million in Q3 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 $8 million in Q3 2019 compared to net operating income of $17 million in Q3 2018, reflecting lower activity levels compared with the prior year period and a competitive market environment.

Nine months ended 30 September 2019

SURF and Conventional
Revenue was $2.4 billion for the nine months ended 30 September 2019, an increase of $123 million or 5% compared to 2018. The increase in revenue was driven by higher activity levels.

During the nine months ended 30 September 2019, the West Nile Delta GFR field development offshore Egypt, the PUPP and Asabo Flare Restoration projects offshore Nigeria, the Hasbah project offshore Saudi Arabia, the Storr and Alligin projects offshore UK and the Sole project, offshore Australia completed or neared completion. Work progressed on the Burullus 9B project, offshore Egypt, 3PDMs project offshore Saudi Arabia, Mad Dog 2, Katmai and Manuel within the US Gulf of Mexico, the Snorre, Nova and Oda projects offshore Norway and the Arran and Penguins projects offshore UK. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $126 million in the nine months ended 30 September 2019, a decrease of $41 million or 24% compared to 2018. The decrease in net operating income reflected lower pricing on projects awarded during the downturn.

Life of Field
Revenue for the nine months ended 30 September 2019 was $196 million, an increase of $18 million or 10% compared to 2018. The increase was primarily driven by increased Inspection, Repair and Maintenance activities offshore Azerbaijan and Norway.

Net operating income was less than $1 million for the nine months ended 30 September 2019 compared to $5 million in 2018. The decrease in net operating income reflected lower pricing on projects awarded during the downturn partially offset by increased activity.

Renewables and Heavy Lifting
Revenue was $158 million for the nine months ended 30 September 2019 compared to $582 million in 2018. The reduction in revenue was primarily due to lower activity on the Beatrice wind farm project, offshore UK, which is operationally complete. Net operating loss was $27 million for the nine months ended 30 September 2019 compared to a net operating income of $17 million in 2018 which reflected lower activity levels compared with the prior year period and a competitive market environment.

Asset Development and Activities

Vessel Utilisation
Total Vessel Utilisation for the quarter was 78% compared to 85% in Q3 2018.

At 30 September 2019 there were 35 vessels in the fleet, comprising 32 active vessels, two stacked vessels and one vessel under construction.

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

Backlog

At 30 September 2019 backlog was $4.9 billion, an increase of $0.3 billion compared with 30 June 2019. Order intake totalling $1.4 billion, including escallations, was recorded in the quarter. Adverse foreign exchange movements of approximately $80 million were recognised during the quarter. New awards included the Marjan 2 project, offshore Saudi Arabia, the ACE project, offshore Azerbaijan, and the Lapa North East project, offshore Brazil.

$4.0 billion of the backlog at 30 September 2019 related to the SURF and Conventional business unit (which included $0.7 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. $0.9 billion of this backlog is expected to be executed in 2019, $2.6 billion in 2020 and $1.4 billion in 2021 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		Nine Months Ended	
	Q3 2019 Unaudited	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Revenue	**950.6**	1,082.4	**2,767.7**	3,051.1
Operating expenses	**(816.0)**	(908.0)	**(2,476.4)**	(2,666.4)
Gross profit	**134.6**	174.4	**291.3**	384.7
Administrative expenses	**(72.6)**	(63.9)	**(192.5)**	(203.9)
Share of net income of associates and joint ventures	**(3.4)**	0.2	**(5.5)**	(3.9)
Net operating income	**58.6**	110.7	**93.3**	176.9
Finance income	**2.7**	3.8	**10.7**	12.5
Other gains and losses	**15.8**	(1.7)	**(6.7)**	2.8
Finance costs	**(6.5)**	(2.8)	**(19.5)**	(10.7)
Income before taxes	**70.6**	110.0	**77.8**	181.5
Taxation	**(28.4)**	(33.7)	**(31.0)**	(49.0)
Net income	**42.2**	76.3	**46.8**	132.5
Net income attributable to:				
Shareholders of the parent company	**43.7**	76.5	**52.1**	144.5
Non-controlling interests	**(1.5)**	(0.2)	**(5.3)**	(12.0)
	42.2	76.3	**46.8**	132.5

Earnings per share	**$ per share**	$ per share	**$ per share**	$ per share
Basic	**0.15**	0.23	**0.17**	0.44
Diluted[a]	**0.15**	0.23	**0.17**	0.44

(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 Q3 2019 Unaudited	Third Quarter Q3 2018 Unaudited	Nine Months Ended 30 Sep 2019 Unaudited	Nine Months Ended 30 Sep 2018 Unaudited
Net income	**42.2**	76.3	**46.8**	132.5
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation	**(36.0)**	(16.2)	**(21.5)**	(41.4)
Reclassification adjustments relating to disposal of subsidiary	**–**	–	**1.2**	–
Tax relating to components of other comprehensive income which may be reclassified	**1.2**	–	**(0.6)**	(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)**	–
Other comprehensive loss	**(34.8)**	(16.2)	**(21.3)**	(42.1)
Total comprehensive income	**7.4**	60.1	**25.5**	90.4
Total comprehensive income attributable to:				
Shareholders of the parent company	**9.5**	60.1	**31.4**	102.5
Non-controlling interests	**(2.1)**	–	**(5.9)**	(12.1)
	7.4	60.1	**25.5**	90.4

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Condensed Consolidated Balance Sheet

As at (in $ millions)	30 Sep 2019 Unaudited	31 Dec 2018 Audited
Assets		
Non-current assets		
Goodwill	**768.1**	751.3
Intangible assets	**30.4**	31.9
Property, plant and equipment	**4,483.6**	4,568.9
Right-of-use assets	**351.7**	–
Interest in associates and joint ventures	**25.4**	45.2
Advances and receivables	**32.1**	38.4
Derivative financial instruments	**0.1**	0.7
Other financial assets	**8.2**	7.2
Retirement benefit assets	**0.1**	0.1
Deferred tax assets	**27.3**	28.9
	5,727.0	5,472.6
Current assets		
Inventories	**36.6**	32.0
Trade and other receivables	**713.0**	607.9
Derivative financial instruments	**7.8**	10.5
Other financial assets	**–**	15.9
Assets classified as held for sale	**0.1**	0.4
Construction contracts – assets	**430.1**	494.9
Other accrued income and prepaid expenses	**192.8**	165.7
Restricted cash	**4.2**	4.1
Cash and cash equivalents	**367.1**	764.9
	1,751.7	2,096.3
Total assets	**7,478.7**	7,568.9
Equity		
Issued share capital	**600.0**	654.7
Treasury shares	**(22.5)**	(95.0)
Paid in surplus	**2,508.2**	2,826.6
Translation reserve	**(638.7)**	(618.4)
Other reserves	**(19.5)**	(26.3)
Retained earnings	**2,986.5**	2,941.8
Equity attributable to shareholders of the parent company	**5,414.0**	5,683.4
Non-controlling interests	**27.5**	38.4
Total equity	**5,441.5**	5,721.8
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**215.2**	233.6
Non-current lease liabilities	**273.2**	–
Retirement benefit obligations	**13.8**	30.9
Deferred tax liabilities	**38.4**	39.5
Provisions	**62.9**	98.7
Contingent liability recognised	**5.0**	6.0
Derivative financial instruments	**2.9**	3.0
Other non-current liabilities	**29.4**	34.6
	640.8	446.3
Current liabilities		
Trade and other liabilities	**942.6**	978.1
Derivative financial instruments	**9.7**	4.1
Current tax liabilities	**93.4**	103.4
Current portion of borrowings	**24.6**	24.6
Current lease liabilities	**94.8**	–
Provisions	**57.4**	117.4
Construction contracts – liabilities	**147.3**	167.8
Deferred revenue	**26.6**	5.4
	1,396.4	1,400.8
Total liabilities	**2,037.2**	1,847.1
Total equity and liabilities	**7,478.7**	7,568.9

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 Statement of Changes in Equity
For the nine months ended 30 September 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)	–	–	–	–	–	144.5	144.5	(12.0)	132.5
Foreign currency translation	–	–	–	(41.3)	–	–	(41.3)	(0.1)	(41.4)
Tax relating to components of other comprehensive income	–	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Total comprehensive income/(loss)	**–**	**–**	**–**	**(42.0)**	**–**	**144.5**	**102.5**	**(12.1)**	**90.4**
Transactions with owners									
Shares repurchased	–	(8.8)	–	–	–	–	(8.8)	–	(8.8)
Dividends declared	–	–	(204.3)	–	–	–	(204.3)	–	(204.3)
Share-based payments	–	–	3.6	–	–	–	3.6	–	3.6
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)**	**(200.7)**	**–**	**–**	**(1.0)**	**(209.2)**	**–**	**(209.2)**
Balance at 30 September 2018	**654.7**	**(27.2)**	**2,833.0**	**(565.6)**	**(29.3)**	**2,921.3**	**5,786.9**	**36.3**	**5,823.2**

Subsea 7 S.A.
Condensed Consolidated Cash Flow Statement

(in $ millions)	Nine Months Ended 30 Sep 2019 Unaudited	Nine Months Ended 30 Sep 2018 Unaudited
Net cash generated from operating activities	**195.0**	237.6
Cash flows from investing activities		
Net proceeds from disposal of property, plant and equipment	**4.5**	4.5
Purchases of property, plant and equipment	**(170.4)**	(197.6)
Purchases of intangible assets	**(6.5)**	(2.2)
Loans to associates and joint ventures	**(0.2)**	(2.3)
Loan repayments from joint ventures	**–**	0.2
Interest received	**10.7**	12.5
Acquisition of businesses (net of cash and borrowings acquired)	**(8.8)**	(161.3)
Acquisition of interest in joint venture	**–**	(18.9)
Payment of contingent consideration in respect of acquisitions	**(29.5)**	–
Proceeds from disposal of subsidiary	**4.6**	–
Investment in financial assets	**(1.0)**	–
Proceeds from sale of other financial assets	**21.4**	–
Net cash used in investing activities	**(175.2)**	(365.1)
Cash flows from financing activities		
Interest paid	**(8.6)**	(9.9)
Repayment of borrowings	**(19.2)**	(18.5)
Proceeds from reissuance of ordinary shares	**–**	0.5
Cost of share repurchases	**(249.7)**	(8.7)
Payments related to lease liabilities	**(80.7)**	–
Dividends paid to equity shareholders of the parent company	**(53.8)**	(204.3)
Dividends paid to non-controlling interests	**(1.0)**	–
Net cash used in financing activities	**(413.0)**	(240.9)
Net decrease in cash and cash equivalents	**(393.2)**	(368.4)
Cash and cash equivalents at beginning of year	**764.9**	1,109.1
Decrease in restricted cash	**–**	1.0
Effect of foreign exchange rate movements on cash and cash equivalents	**(4.6)**	(9.7)
Cash and cash equivalents at end of period	**367.1**	732.0

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 6 November 2019.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period from 1 January 2019 to 30 September 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 nine month period ending 30 September 2019, was to reduce operating lease expense by $80.5 million, recognise lease amortisation charges of $77.1 million and lease finance costs of $13.1 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 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 three months ended 30 September 2018

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	715.5	1.6	150.5	–	867.6
Day-rate projects	149.9	63.9	1.0	–	214.8
	865.4	65.5	151.5	–	1,082.4
Net operating income/(loss)	92.5	4.2	16.5	(2.5)	110.7
Finance income					3.8
Other gains and losses					(1.7)
Finance costs					(2.8)
Income before taxes					110.0

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**

For the nine months ended 30 September 2018

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	1,792.9	2.4	581.1	–	2,376.4
Day-rate projects	499.0	175.2	0.5	–	674.7
	2,291.9	177.6	581.6	–	3,051.1
Net operating income/(loss)	167.0	5.1	16.9	(12.1)	176.9
Finance income					12.5
Other gains and losses					2.8
Finance costs					(10.7)
Income before taxes					181.5

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:

	Third Quarter		Nine Months Ended	
For the period (in $ millions)	**Q3 2019 Unaudited**	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Net income attributable to shareholders of the parent company	**43.7**	76.5	**52.1**	144.5
Earnings used in the calculation of diluted earnings per share	**43.7**	76.5	**52.1**	144.5

	Third Quarter		Nine Months Ended	
For the period (number of shares)	**Q3 2019 Unaudited**	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	**298,185,311**	325,884,632	**306,946,215**	326,099,444
Share options and performance shares	**1,122,228**	1,822,759	**1,181,835**	1,852,600
Weighted average number of common shares used in the calculation of diluted earnings per share	**299,307,539**	327,707,391	**308,128,050**	327,952,044

	Third Quarter		Nine Months Ended	
For the period (in $ per share)	**Q3 2019 Unaudited**	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Basic earnings per share	**0.15**	0.23	**0.17**	0.44
Diluted earnings per share	**0.15**	0.23	**0.17**	0.44

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:

	Third Quarter		Nine Months Ended	
For the period (number of shares)	**Q3 2019 Unaudited**	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Share options and performance shares	**831,004**	495,267	**773,982**	480,692

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:

	Third Quarter		Nine Months Ended	
For the period (in $ millions)	**Q3 2019 Unaudited**	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Net operating income	**58.6**	110.7	**93.3**	176.9
Depreciation, amortisation and mobilisation	**121.9**	106.5	**369.0**	328.3
Impairment of property, plant and equipment	**–**	–	**–**	0.5
Adjusted EBITDA	**180.5**	217.2	**462.3**	505.7
Revenue	**950.6**	1,082.4	**2,767.7**	3,051.1
Adjusted EBITDA margin	**19.0%**	20.1%	**16.7%**	16.6%

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

	Third Quarter		Nine Months Ended	
For the period (in $ millions)	**Q3 2019 Unaudited**	Q3 2018 Unaudited	**30 Sep 2019 Unaudited**	30 Sep 2018 Unaudited
Net income	**42.2**	76.3	**46.8**	132.5
Depreciation, amortisation and mobilisation	**121.9**	106.5	**369.0**	328.3
Impairment of property, plant and equipment	**–**	–	**–**	0.5
Finance income	**(2.7)**	(3.8)	**(10.7)**	(12.5)
Other gains and losses	**(15.8)**	1.7	**6.7**	(2.8)
Finance costs	**6.5**	2.8	**19.5**	10.7
Taxation	**28.4**	33.7	**31.0**	49.0
Adjusted EBITDA	**180.5**	217.2	**462.3**	505.7
Revenue	**950.6**	1,082.4	**2,767.7**	3,051.1
Adjusted EBITDA margin	**19.0%**	20.0%	**16.7%**	16.6%

9. Goodwill

The movement in goodwill during the period was as follows:

	Nine Months Ended	
(in $ millions)	**30 Sep 2019 Unaudited**	30 Sep 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 combinations	**26.9**	71.2
Exchange differences	**(10.1)**	(7.4)
At period end	**768.1**	767.0

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.

On 9 August 2019, an indirect subsidiary of Subsea 7 S.A. acquired the entire share capital of Green Light Environment Pty Ltd. The transaction resulted in the recognition of a provisional amount of goodwill of $1.3 million.

10. Treasury shares

During the third quarter, no shares were used to satisfy share-based awards. At 30 September 2019, the Group directly held 1,922,107 shares (Q2 2019: 5,155,718) as treasury shares, representing 0.64% (Q2 2019: 1.69%) of the total number of issued shares.

During the third quarter, 5,367,111 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 third quarter, 2,133,500 shares were repurchased for a total consideration of $25.0 million under the Group's $200 million share repurchase programme initiated in February 2019. On 11 July 2019, the Group completed this share repurchase programme. The Group had repurchased a cumulative 16,515,838 shares for a total consideration of $199.9 million under this programme. At 30 September 2019 no shares had been repurchased under the Group's new share repurchase programme authorised on 24 July 2019.

12. Commitments and contingent liabilities

Commitments

At 30 September 2019, the Group had significant contractual commitments totalling $118.2 million, mainly in relation to the 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 September 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 $94.2 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 $9.2 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 2019 amounted to BRL 835.4 million, equivalent to $199.9 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 and 2019, the Group's Brazilian business received a number of labour and civil tax claims. The amount assessed at 30 September 2019 amounted to BRL 221.9 million, equivalent to $53.1 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 BRL 176.6 million, equivalent to $42.3 million as the disclosure criteria have been met however the Group does not believe that the likelihood of payment is probable. A provision of BRL 45.3 million, equivalent to $10.8 million, was recognised within the Consolidated Balance Sheet at 30 September 2019 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' 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 2019 was $3.8 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 September 2019 was $0.9 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)	Nine Months Ended **30 Sep 2019 Unaudited**	 30 Sep 2018 Unaudited
Cash flow from operating activities:		
Income before taxes	**77.8**	181.5
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**276.6**	297.1
Impairment of property, plant and equipment	**–**	0.5
Amortisation of right-of-use assets	**77.1**	–
Amortisation of intangible assets	**8.5**	24.4
Amortisation of mobilisation costs	**6.8**	6.8
Adjustments for investing and financing items:		
Share of net income of associates and joint ventures	**5.5**	3.9
Finance income	**(10.7)**	(12.5)
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)**	–
(Profit)/loss on disposal of property, plant and equipment	**(1.6)**	0.1
Finance costs	**19.5**	10.7
Adjustments for equity items:		
Reclassification of exchange differences relating to the disposal of a subsidiary	**1.2**	–
Share-based payments	**3.5**	3.5
	454.0	516.0
Changes in operating assets and liabilities:		
Increase in inventories	**(5.1)**	(0.7)
Increase in operating receivables	**(46.3)**	(389.6)
(Decrease)/increase in operating liabilities	**(117.1)**	183.4
	(168.5)	(206.9)
Income taxes paid	**(90.5)**	(71.5)
Net cash generated from operating activities	**195.0**	237.6

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 September 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 Sep Level 1**	**2019 30 Sep Level 2**	**2019 30 Sep 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	**–**	**7.9**	**–**	–	11.2	–
Other financial assets	**–**	**–**	**–**	15.9	–	–
Financial liabilities measured at fair value through profit or loss:						
Derivative instruments	**–**	**(12.6)**	**–**	–	(7.1)	–
Contingent consideration	**–**	**–**	**(14.0)**	–	–	(47.7)

During the nine month period ended 30 September 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. The movement in contingent consideration relates principally to the settlement of previous fair value estimates arising from business combinations.

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 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. Related party transactions

During the quarter, $29.5 million was paid to Siem Offshore Inc. as full and final settlement of the contingent consideration related to the Group's acquisition of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH) in 2018. Siem Offshore Inc., which is an associate of Siem Industries Inc., is considered to be a related party to the Subsea 7 S.A. Group. The transaction resulted in a $1.5 million gain being recognised within other gains and losses in the Group's Q3 2019 Consolidated Income Statement.

16. Post balance sheet events

Acquisition of 4Subsea AS

On 2 October 2019, an indirect subsidiary of Subsea 7 S.A. acquired, for consideration totalling approximately $20.0 million, the entire share capital of 4Subsea AS, a leading provider of technology and services that delivers key decision support to oil and gas and offshore wind operators worldwide.