Subsea 7 S.A. Annual Report 2018

Annual Report 2018

2018 Financial Performance

Revenue
$4,074m
(2017: $3,986m)

Net income
$165m
(2017: $455m)

Adjusted EBITDA
$669m
(2017: $1,035m)

Diluted earnings per share
$0.56
(2017: $1.36)

Cash and cash equivalents
$765m
(2017: $1,109m)

Backlog
$4,907m
(2017: $5,208m)

Dividends and share repurchases
$297m
(2017: $191m)

CONTENTS

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Our vision is to lead the way in the delivery of offshore projects and services for the energy industry.

Subsea 7 is a global leader in the delivery of offshore projects and services for the evolving energy industry. We create sustainable value by being the industry's partner and employer of choice in delivering the efficient offshore solutions the world needs.

2018 OPERATIONAL PERFORMANCE

Size of workforce
11,000+

Number of nationalities
91

Number of great safety days
336

Early engagement studies
153

Community assistance events
67

Number of engineers
1,700+

New graduate engineers joined
53

Average age of fleet
10 years

Active patent families
210

Active projects
93

Active presence in
33 countries

Projects awarded
34

Fleet size
33 vessels

"Our strategic investments to grow and strengthen our business through the recent down cycle position us well to deliver sustainable value to all our stakeholders as the market recovers."

Kristian Siem
Chairman

To the shareholders of Subsea 7 S.A.

Subsea 7 delivered good operational and financial results in 2018. Our safety standards remained high, and we continue to aim for improvement. This robust performance was driven by the improving activity levels in deepwater oil and gas and was supported by solid results from businesses acquired by Subsea 7 during the downturn.

Revenue rose by 2% to $4.1 billion with increased revenues from Conventional activities resulting from a full year's contribution from projects in the Middle East acquired in mid-2017. 2018 diluted earnings per share was $0.56 compared to $1.36 in 2017, reflecting lower pricing on projects awarded during the downturn and fewer large projects in the final stages of completion.

Our focused and collaborative approach to finding the optimal solutions with our clients, partners and suppliers has allowed us to deliver enhanced project outcomes. Subsea 7's order intake was $4.0 billion primarily due to new contracts and contract escalations in 2018, as we offered smarter and lower cost solutions for projects in a market benefiting from a higher oil price for the majority of the year.

Well positioned for growth

Offshore energy remains critical to meeting global demand in the long term. I am confident that Subsea 7 is in the right markets as we see continued long-term growth of oil and gas production, with gas increasing its share, as well as the development of offshore wind farms for renewable energy in a growing number of regions around the globe.

The number of deepwater oil and gas projects sanctioned by our clients started to increase in 2018 as the benefits of collaboration, innovation and integration supported better economic returns. Projects sanctioned in 2018 were mostly small and mid-sized that generate accelerated incremental returns for our clients at a lower absolute project cost. As the recovery cycle progresses we are seeing more tenders for larger greenfield developments with project sanctions expected in 2019 and 2020.

Through strategic investments made in the downturn we have strengthened our portfolio of best-in-class technology, enhanced our early engineering capability, developed a fully integrated offering with a world-leading partner, OneSubsea, a Schlumberger company, and grown our positions in the Conventional and Renewables markets. This has strengthened our presence in the offshore energy market, which positions us well to support clients and win market share as the market recovers.

Our Values driven culture

Subsea 7's Values provide the framework for how we behave and what our people, our clients, our shareholders and society can expect from us; they make us who we are.

We have introduced Sustainability as a new Value, having previously included it implicitly within our other Values. Our increased focus on Sustainability reflects the growing importance of environmental and social responsibility at Subsea 7. Subsea 7 has a track record in adhering to these Values. They are what make us an attractive employer for our people, and a long-standing trusted partner for our clients, suppliers, business partners and shareholders.

OUR VALUES

SAFETY

Our goal is an incident-free workplace. We work every day, everywhere to make sure all our people are safe.

INTEGRITY

We apply the highest ethical standards in everything we do. We treat clients, our people, partners and suppliers fairly and with respect.

SUSTAINABILITY

We take a proactive approach towards our social responsibilities, mitigate the impact of our activities on our planet's environment and respond to the effects of climate change.

PERFORMANCE

We are driven to achieve the outcomes our clients want. We are trusted to achieve superior performance from every project.

COLLABORATION

We work closely and openly together with clients, partners and suppliers at a local and global level to deliver safer and stronger results for all.

INNOVATION

We create smarter and simpler solutions to meet the industry's needs. We combine technology, expertise, assets and partnerships to deliver projects in new ways.

Our framework for disciplined capital management

Subsea 7 has a strong financial and liquidity position that has enabled the Group to re-invest in the business, maintain an investment grade credit profile and return cash to shareholders, even during the challenging phases of the market cycle.

A total of $297 million in cash was returned to shareholders in 2018. The Group paid a special dividend of $204 million to shareholders in May 2018 and repurchased 8.1 million shares at a cost of $93 million, thereby completing on 19 February 2019 the $200 million share repurchase programme approved by the Board on 30 July 2014.

During the year, Subsea 7 developed its presence in Renewables, with the acquisition of Seaway Offshore Cables, and enhanced its early engineering capability by taking a majority stake in Xodus Group. Further investments were made in technology and the fleet with continued progress on the new-build rigid reel-lay vessel *Seven Vega*, which is due to commence operation in 2020.

Reflecting the Group's strong financial position and expectation of an improving market, the Board of Directors approved a new share repurchase programme on 27 February 2019 of up to $200 million over two years and will recommend to the shareholders at the Annual General Meeting that a special dividend of NOK 1.50 per share be paid, equating to a total dividend of approximately $55 million, reflecting a balancing of cash returns to favour share repurchases.

My thanks

I would like to thank our people and our business partners for their expertise, passion and commitment as we work to provide our clients with the right solutions and create sustainable value.

On behalf of the Board of Directors, I thank Sir Peter Mason, who was Senior Independent Director, and Mr Robert Long, who was an Independent Director, both of whom retired during 2018, for their long service and valuable counsel to the Company over many years.

I would also like to thank our clients and shareholders for their ongoing support and confidence as we deliver on our strategy to achieve our vision of leading the way in the delivery of offshore projects and services for the energy industry.

Kristian Siem
Chairman

"We have performed well, delivering differentiated services and solutions for our clients in an evolving energy sector."

Jean Cahuzac
Chief Executive Officer

Reflecting on our 2018 performance

In 2018, all three of Subsea 7's operational business units performed well. We executed our projects successfully and received a good share of new awards as the oil and gas market moved towards the gradual recovery phase of the cycle.

Revenue of $4.1 billion was 2% higher than the prior year as we consolidated acquisitions made during the downturn and benefited from an increase in offshore activity supported by the higher oil price. Our vessel utilisation increased to 70% as we completed major offshore campaigns in Egypt and benefited from recently awarded projects in the North Sea.

Adjusted EBITDA of $669 million was $366 million lower than 2017, reflecting the challenging market conditions as we executed projects that were awarded at lower prices during the downturn.

The increase in operations offshore UK and Norway in the summer accentuated the seasonality of our earnings, with more activity in the second and third quarters when weather conditions were more favourable in the Northern Hemisphere.

In 2018, we substantially completed the largest two projects awarded to Subsea 7 since the start of the downturn: the West Nile Delta Phase Two project, which was the latest in a series of domestic gas projects completed offshore Egypt since 2015; and our largest renewables project to date, the Beatrice wind farm project, offshore UK.

Our order backlog was $4.9 billion at the end of the year. Order intake was $4.0 billion, reflecting our strong differentiated offering of projects and services in offshore oil, gas and wind energy. Awards included the Manuel project, in the US Gulf of Mexico, which is the second application of our patented Electrically Heat Traced Flowline technology, designed to deliver a long-distance tie-back solution. We were also awarded the Penguins and Buzzard projects, offshore UK, both of which were enabled by the application of our unique Pipeline Bundle technology to drive cost-effective solutions. 2018 saw more integrated project awards for our successful Subsea Integration Alliance with OneSubsea, with the Katmai project in the US Gulf of Mexico and the West Barracouta project, offshore Australia. Our investment in a renewables business led to several transport and installation awards, with wind farm projects awarded offshore Taiwan and the US, the first outside Europe.

Pricing on new projects has been under pressure in 2018, reflecting prevailing market conditions. We have continued to focus on cost optimisation and maintained a disciplined approach to the appropriate level of project risk.

Our people, offshore and onshore, are at the heart of our good performance and their safety and wellbeing is our first priority. We aim to achieve an incident-free workplace every day in all our locations worldwide, despite the complex operating environments in which we execute our projects. In 2018, we improved our safety track record, as measured by key industry performance indicators, and introduced new programmes such as our mental health resilience training course alongside our existing safety training and leadership programmes.

OUR DIFFERENTIATORS

We add value to our clients' businesses as we support them with cost-effective solutions enabled by technology

CULTURE

Global team with expertise, passion and commitment to deliver.

CREATIVITY

Ability to innovate through technology, processes and partnerships.

RELATIONSHIPS

Working and learning together to achieve success for all.

RELIABILITY

Trusted partner in delivering projects.

SOLUTIONS

Client-focused mindset to create the right solution.

Delivering offshore solutions efficiently

Subsea 7 is a leading provider of offshore solutions to the energy industry. We achieve this through our differentiated offering based on our skill, expertise and experience. Our client-focused mindset and desire to offer the right solution has driven us to get involved earlier in the project lifecycle. Our expertise in early engineering, provided by Xodus for client-led solutions, our own engineering teams and Subsea Integration Alliance for supplier-led solutions, is helping our clients achieve superior results for their projects. Engaging earlier enables us to innovatively combine technology, processes and partnerships to deliver better and more efficient outcomes. Early engagement highlights of the year included the award of the Front End Engineering Design (FEED) for the greenfield SNE Phase 1 project offshore Senegal. Our long-term relationships with clients, partners and suppliers are strengthened by our reliable performance and collaborative culture.

In 2018, we have won and executed integrated projects through our successful Subsea Integration Alliance with OneSubsea. Based on this success, we have strengthened our alliance with a dedicated management team and supervisory board, with senior representation from both Subsea 7 and Schlumberger, to deliver on our integrated strategy and provide a solid framework for future joint technology programmes.

Looking ahead to the recovery

Project sanctions for offshore oil and gas troughed in 2016, with a sequential increase in tendering activity in both 2017 and 2018. As we look ahead to 2019, we see a continuation of this trend and expect our clients to award a number of larger greenfield oil and gas projects to the market. These larger awards require longer offshore campaigns for key enabling vessels and as these come to market we expect industry utilisation and subsequently project pricing to improve. Although oil price volatility remains a risk, most large projects we are tendering today have breakeven levels well below the projected long-term oil price trends. Subsea 7 does not have any large wind farm projects scheduled for execution in 2019, but new market awards are expected to drive increased activity from 2020, as this market continues to grow and becomes more global.

In 2019 we will be executing oil and gas projects awarded in the trough of the downturn. This, combined with a lull between large wind farm project awards, leads us to expect lower revenues and earnings in 2019. Nevertheless, the projects we are now tendering for and winning give us confidence that the expected market recovery will translate into further improvement of our financial performance in the medium term.

Jean Cahuzac
Chief Executive Officer

Offshore energy market dynamics

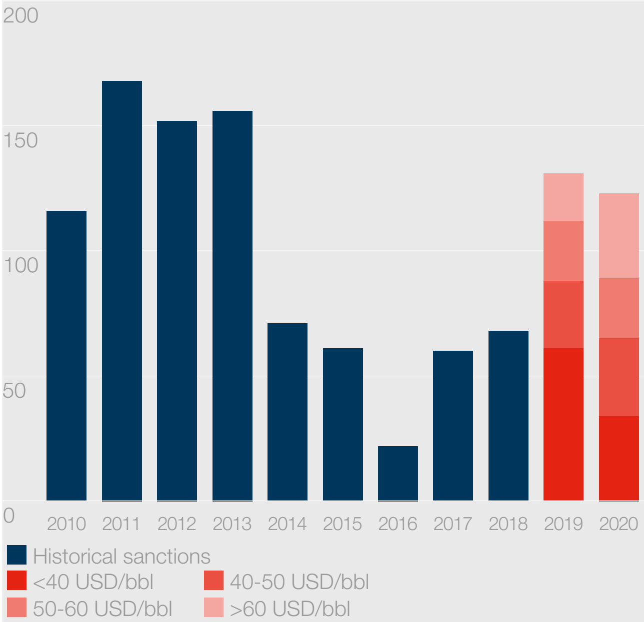
Oil and gas market

2018 was a turbulent year for the oil and gas market. In the first 10 months of 2018, the price of oil and gas increased, reflecting rising demand. This was driven by global economic growth, and supply constraints primarily due to geopolitical issues in Venezuela and Iran causing uncertainties to the supply curve. In October, Brent Crude reached a four-year high, briefly exceeding a price of $85 per barrel. The high oil price was short-lived and in the final three months of the year Brent fell over 40%, to just above $50 per barrel in the steepest decline since 2014. This was driven by exemptions to sanctions on Iran in parallel with a continued increase in supply from other nations, and market concerns about a slowdown in global economic growth.

The oil field services industry has made substantial progress in reducing the cost of developing offshore energy to help clients make offshore oil and gas developments viable at significantly lower breakeven prices. This has been achieved, in part, through early engagement, simplification and integration, initiatives that have been incorporated into Subsea 7's way of working. 85% of greenfield projects to be sanctioned in 2019 have a breakeven price below $60.

Investment in oil and gas production is needed to compensate for the natural depletion of producing wells, where depletion rates average 4% each year. Offshore oil accounts for over a quarter of the world's supply, and Rystad Energy, a leading energy consultant, estimates that at flat investment rates, due to depletion, a 16% net decline in offshore supply is expected by 2030. To maintain global supply, new offshore reserves must be developed, and existing reserves maximised with the addition of new wells.

Total greenfield capex offshore by sanctioning year
Billion USD

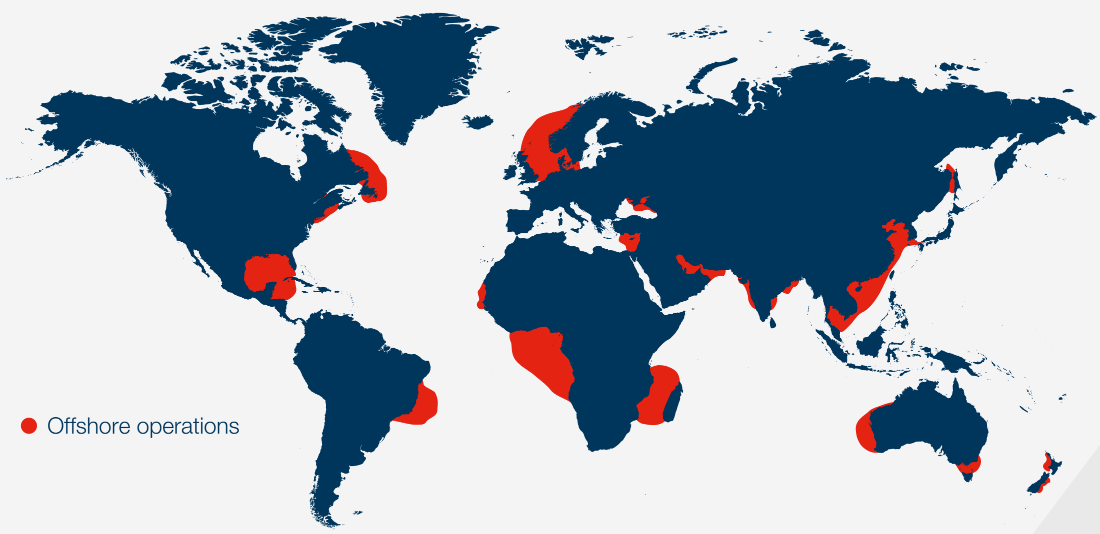


Source: Rystad Energy, January 2019

2018 saw record levels of free cash flow for operators, due to high oil prices accompanied by low capital expenditure budgets. Helped by the lower cost of development, the increased free cash flow is enabling operators to make the necessary investment to offset depletion, while balancing shareholder return. This is evident by evaluating the levels of project sanctioning through the cycle. During 2013 to 2016 project sanctioning declined, however Rystad Energy indicates that the sanctioning of $22 billion for offshore greenfield oil and gas projects in 2016 was the low point of the cycle, with an improvement to $60 billion sanctioned in 2017 and $68 billion in 2018. This indicates the start of a capital expenditure growth cycle with more than $120 billion committed to greenfield developments in 2019 and 2020.

The increase in Subsea Umbilicals Risers and Flowlines (SURF) awards to market in 2018 comprised mostly brownfield

OUR GLOBAL PRESENCE



● Offshore operations

33
Countries where Subsea 7 was active in 2018

41
Local offices

19
Spool bases, fabrication yards and operational support yards

developments. These developments have lower investment decision hurdles because the capital commitments are lower, as infrastructure is already in place and production underway. In 2019 it is estimated that, in addition to the brownfield developments, there will be an increase in greenfield project sanctions. Greenfield projects require multi-month offshore campaigns with high specification construction vessels. Sanctioning is expected in some of the mature markets such as Brazil and Australia, and in new provinces such as Guyana and Senegal. Subsea 7 continually reviews its addressable market and the macro-economic environment. As the oil and gas cycle gradually recovers and renewable energy continues to grow Rystad Energy estimates that Subsea 7's addressable market will increase in total size by approximately 50% from $40 billion in 2017, to $60 billion in 2022.

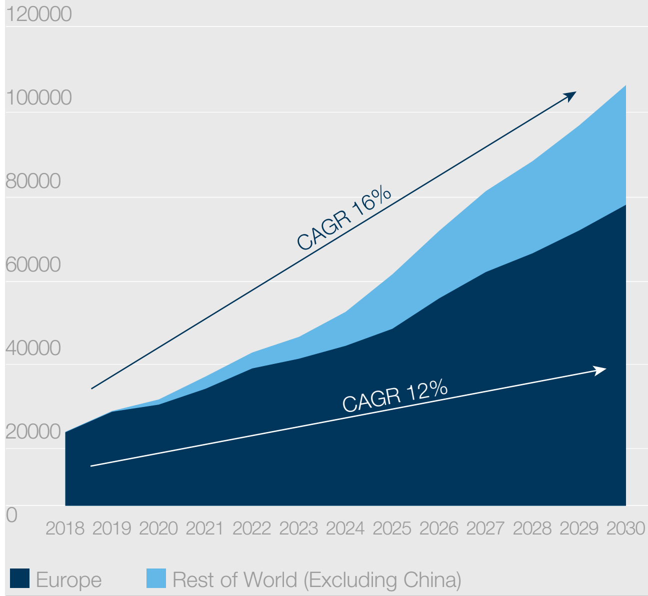
Renewables market

Global energy supply is steadily transitioning towards a lower carbon future. The International Energy Agency and Oil Majors have published long-term scenario based forecasts on energy demand, and on which supply categories will be called for. These studies show that sources such as coal will be significantly replaced by renewable energy as countries seek to maintain their carbon emissions quotas set out by international agreements. However, oil and gas will continue to be dominant in the supply curve for the foreseeable future, with oil production remaining relatively flat and gas seeing steady long-term growth.

The offshore wind market is growing with a 16% annual average growth forecast worldwide, excluding China, according to BloombergNEF, a leading provider of primary research on clean energy. Offshore wind energy has historically been focused around the shallow waters of the North Sea, off the coasts of Germany, the Netherlands and the UK. As governments invest in an energy transition towards a lower carbon world, offshore wind is developing in new regions such as Taiwan and the US, where suitable ocean topographies and prevailing wind conditions exist near to concentrated populations. Countries whose offshore terrains are too deep for fixed foundations are pioneering floating wind farm technologies, but these are still primarily in the prototype stage, and commercialisation is expected to occur in the medium term.

Offshore wind is a developing energy market, smaller but growing faster than offshore oil and gas. Various contracting models are used, with only a few large Engineering Procurement Construction and Installation (EPCI) contracts for foundations and cable-lay services awarded annually, as well as numerous Transport and Installation (T&I) contracts. There has been a recent increase in the number of service companies competing for EPCI awards with established SURF competitors attracted to the long-term structural growth in renewables. These factors have contributed to an uneven flow of work for contractors, resulting in peaks and troughs in revenue due to the unequal distribution of activity.

Offshore wind market outlook – cumulative gigawatt installations
(Gigawatt)



Source: BloombergNEF

OUR GLOBAL HIGHLIGHTS

Region	2018 Award highlights	2018 Operational highlights
Gulf of Mexico	• The first project award incorporating EHTF technology in the region with the Manuel project. • The award of Coastal Virginia Offshore Wind project, the first renewables project on the east coast of the US.	• Mad Dog 2 project substantially completed the engineering phase. • Successful installation by Subsea Integration Alliance of a boosting pump system for the Dalmatian project.
Brazil	• Carcará Steel Lazy Wave Riser Study for Equinor in the pre-salt fields.	• Commenced qualification, with Airborne Oil and Gas, of composite pipe for riser systems. • Continued high vessel utilisation for the Pipe Lay Support Vessel (PLSV) fleet.
North Sea and Canada	• Continued utilisation of Pipeline Bundle technology with the award of Buzzard Phase 2 and Penguins projects. • The award of Nova and Johan Castberg projects, showing increased volumes of work offshore Norway.	• Completion of three large multi-year projects: Catcher, Aasta Hansteen and Beatrice. • First project for Chrysaor with the Lomond pipe repair project.
Africa	• The re-commencement of Conventional work offshore Nigeria with the PUPP project. • Deployment of Pipe-in-Pipe technology in Angola with the Zinia Phase 2 project. • The FEED award on the Sangomar project in Senegal, a new oil and gas province.	• West Nile Delta Phase Two and Atoll projects completed offshore Egypt. • Successful completion of the OCTP project, offshore Ghana.
Asia Pacific	• Re-established presence in the Caspian Sea with a BP IRM Frame Agreement in Azerbaijan. • The award of the first renewables project in the region with the Yunlin project in Taiwan.	• Successful progress of the Greater Western Flank project, offshore Australia. • Seven years without a lost-time incident (LTI) in the region whilst executing over 28 projects for 21 clients.
Middle East	• The award of 3PDMs project, showing continued opportunities under the Saudi Aramco LTA.	• Substantial progress of the Hasbah and 17 Cranes projects, offshore Saudi Arabia.

A leading strategic partner

In an evolving energy sector, we create sustainable value by being the industry's partner and employer of choice in delivering the efficient offshore solutions the world needs.

OUR DIFFERENTIATORS

Culture	Creativity	Relationships	Reliability	Solutions
Global team with expertise, passion and commitment to deliver.	**Ability to innovate through technology, processes and partnerships.**	**Working and learning together to achieve success for all.**	**Trusted partner in delivering projects.**	**Client-focused mindset to create the right solution.**
Our Values are strongly embedded and underpin the behaviours and ways of working of our teams. Our people take great pride in living our Values and applying them consistently across our global operations.	We embrace new challenges, and apply our expertise and experience to generate technical, commercial and operational solutions, which benefit all our stakeholders.	We have built long-standing client and supplier relationships through consistent high-quality delivery, transparency and adaptability. We respond to what our clients need to support them in creating long-term value.	We are proud of the execution track record that keeps our clients coming back, with over 1,000 projects successfully executed in all water depths worldwide. Our reliability is enhanced by our secure financial profile and liquidity position.	Our clients rely on us to develop fit for purpose solutions that reliably meet project requirements. We deliver these solutions whether for complex programmes or for small, standardised projects or services.

Delivering value for our stakeholders

OUR STAKEHOLDERS

Our clients	Our shareholders	Our people	Society
Our collaborative way of working helps us to develop the best solutions for our clients' needs. We are able to lower our clients' costs by utilising our technology, our assets and efficient work processes. Our culture ensures good performance without compromising safety.	We seek to create long-term value for our shareholders in all that we do. We have the right solutions to maintain a market-leading position. We have a disciplined approach to capital allocation and an uncompromising commitment to good governance.	Our people are the foundation of our business and their safety and security is paramount. Our experts, onshore and offshore, can deliver solutions around the world, leading the industry in know-how and the ability to generate innovative solutions. We invest in our people, giving them opportunities to learn and grow.	We engage with the societies we work in. Through local partnerships we create and develop local content opportunities, and contribute to the communities in which we work. With Integrity as a Value we have a zero tolerance attitude toward non-compliant business practices.
98 clients worked with Subsea 7 in 2018	**318** meetings between Subsea 7 and investors in 2018	**53** engineering graduates completed development schemes in 2018	**67** community assistance events delivered in 2018

Full service offering across the energ

	CONCEPT	DESIGN	ENGINEER	PROCURE & FABRICATE
	Input at concept allows for optimisation of later cycle stages.	**Robust FEED ensuring minimal change and accurate forecasting during design.**	**Detailed engineering by experienced personnel to deliver the best solution.**	**Efficient procurement and high-quality fabrication delivered on time.**
What we do	Being involved at the earliest stage of the development enables us to deliver maximum value. The Concept stage is key to lowering costs in the later lifecycle stages.	We deliver Front End Engineering Design (FEED) for our clients. These services are essential in selecting the right solution to fully optimise the development.	Engineering is at the core of what we do. Detailed engineering involves taking the initial solutions developed in the concept and FEED stage, and refining these for field execution.	Our teams are able to execute the largest EPIC projects on the market, in all our business units and in all geographies. Our ability to procure and fabricate effectively on a large scale differentiates us.
How we add value	We incorporate new technologies, fit for purpose solutions and standardisation into the concept design to lower the total cost of development.	We work with our alliance and client partners to optimise solutions, align schedules and accurately forecast full lifecycle costs.	Our global teams of experts have a track record in designing and executing the best solutions; this stems from our ability to accurately engineer and solve problems.	We have a clear understanding of the risks and opportunities that exist when working with a large supply chain network.

y lifecycle

Subsea 7 provides project management, engineering and construction expertise across the full energy lifecycle. These services are delivered within three operational business units: SURF and Conventional, Life of Field, and Renewables and Heavy Lifting.

	INSTALL & COMMISSION	MAINTAIN	EXTEND	DECOMMISSION
	Safe, on-schedule and cost-efficient installations by world-class vessels.	**Effective and responsive maintenance reducing cost of ownership.**	**Maximised return on investment by utilising new technologies and tie-back solutions.**	**Facilitated abandonment and decommissioning with heavy lift vessels and re-use of infrastructure.**
What we do	We install and commission subsea energy developments in water depths of up to 3,000m, across all energy hubs.	We specialise in maintaining offshore field developments though our services and expertise delivered through our Life of Field business unit.	We invest in technology that enables our clients to extend the life of their assets through enhancement of current production or additional production from tie-back wells.	We have the capacity to undertake large-scale platform abandonments.
How we add value	Our fleet of high specification vessels allows us to install market leading solutions. Our onshore and offshore experts have the experience to deliver these solutions safely and efficiently.	We incorporate our maintenance services into the design of the field, lowering the total cost of ownership for our clients.	Our technology portfolio offers different solutions for all tie-back lengths; working with our alliance partners we are able to incorporate Subsea Production Systems into these solutions.	We can manage all aspects of decommissioning projects including: regulation, technology, environment, planning, execution and costs.

Subsea 7 provides project management, engineering and construction expertise across three operational business units.

SURF AND CONVENTIONAL

Subsea 7 is a global leader in offshore energy construction projects, operating in all water depths and conditions.

subsea 7

LIFE OF FIELD

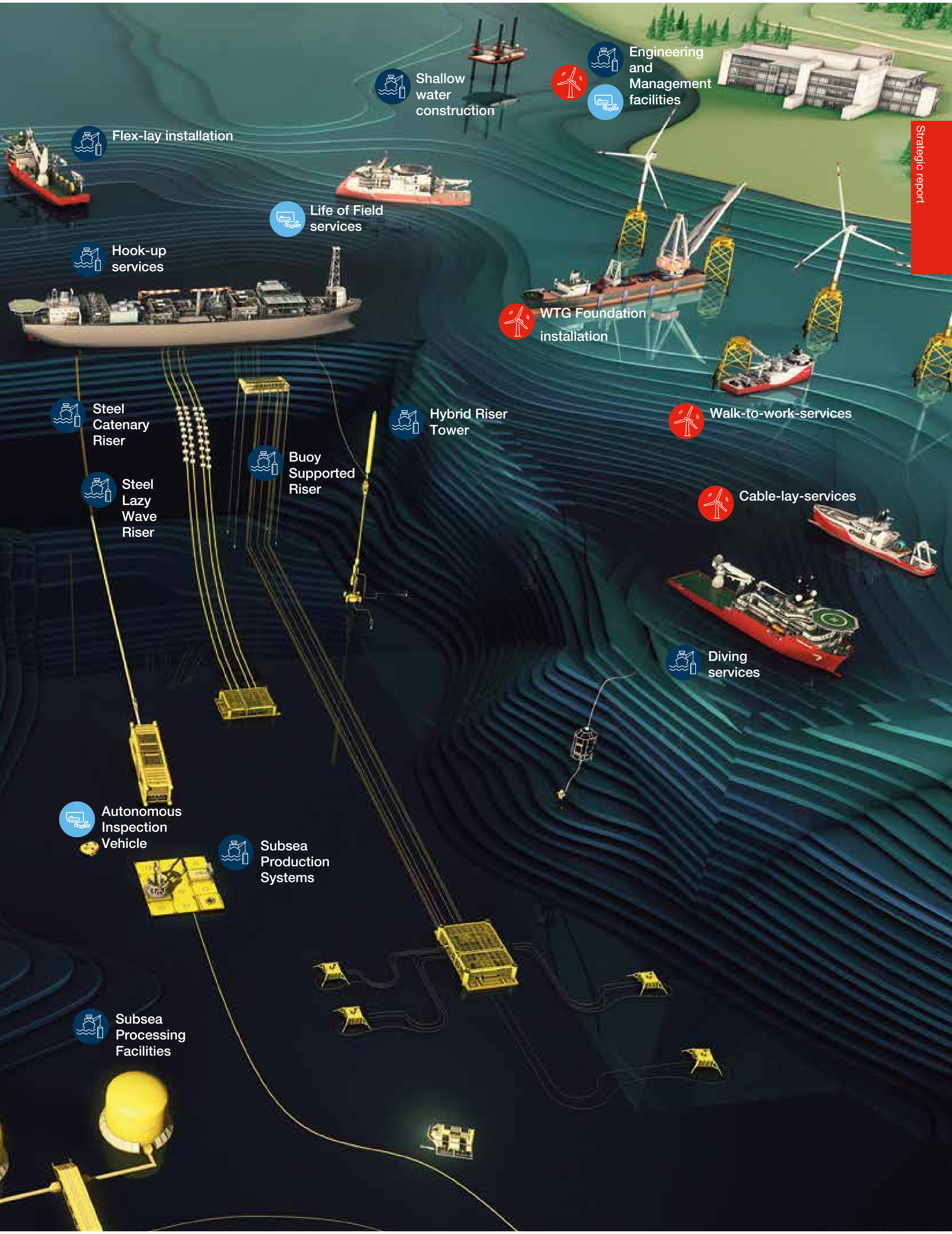
i-Tech 7 is a progressive and pioneering subsea life of field partner delivering Inspection, Repair and Maintenance solutions to offshore energy developments.

i-Tech 7

RENEWABLES AND HEAVY LIFTING

Seaway 7 is a highly capable and experienced partner for the delivery of offshore wind farm projects, specialist heavy lifting and cable-lay services.

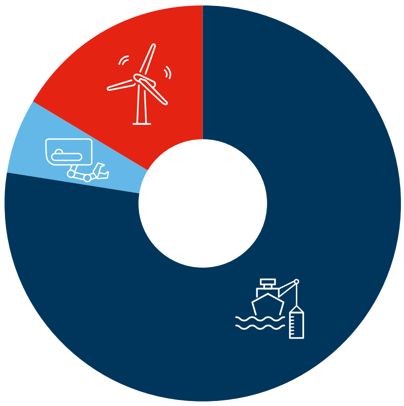
seaway 7


Shallow water construction
Engineering and Management facilities
Flex-lay installation
Life of Field services
Hook-up services
WTG Foundation installation
Steel Catenary Riser
Hybrid Riser Tower
Walk-to-work-services
Buoy Supported Riser
Steel Lazy Wave Riser
Cable-lay-services
Diving services
Autonomous Inspection Vehicle
Subsea Production Systems
Subsea Processing Facilities

Delivering across our segments

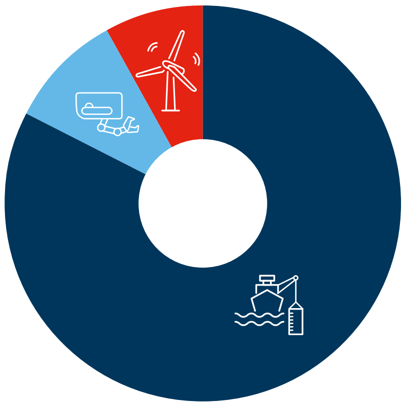
Subsea 7 structures itself around its diversified strengths, reporting across three operational business units: SURF and Conventional, Life of Field, and Renewables and Heavy Lifting. Through these business units we are able to provide full energy lifecycle services.

Group revenue **$4,074m**
(2017: $3,986m)



SURF and Conventional	**$3,164m**
Life of Field	**$245m**
Renewables and Heavy Lifting	**$664m**

Backlog **$4,907m**
(2017: $5,208m)



SURF and Conventional	**$4,059m**
Life of Field	**$461m**
Renewables and Heavy Lifting	**$388m**

OUR STRATEGY

In an evolving energy sector, we create sustainable value by being the industry's partner and employer of choice in delivering the efficient offshore solutions the world needs.

Subsea 7 has invested throughout the cycle in strategic opportunities, helping accomplish its vision to lead the way in the delivery of offshore projects and services for the energy industry.

Across our three operational business units we are able to provide our clients with the best solutions at every stage of the lifecycle.

In 2018 we deployed proprietary SURF technology to lower the cost of developments such as Electrically Heat Traced Flowlines and Pipeline Bundles. In Renewables and Heavy Lifting, our strategy to expand into other geographies was successful with contract awards in Asia and the US. In Life of Field, our digitalisation programme progressed well with the development of key partnerships and relationships.

SURF AND CONVENTIONAL

Our SURF and Conventional business unit is a global leader in offshore energy services delivering Design, Engineering, Procurement, and Construction and Installation (EPCI) and Decommissioning projects in all water depths, operating under the Subsea 7 brand.

Subsea 7 delivers activities related to the design, engineering, procurement, construction, installation and decommissioning of highly complex oil and gas infrastructure offshore in deep water and challenging environments. Conventional services include the fabrication, installation, extension and refurbishment of energy infrastructure in shallow water locations.

We aim to deliver the right solution for clients at an optimised cost. This is achieved through three different operational models: fully integrated projects, long-term partnership agreements, and standalone SURF solutions.

Subsea Integration Alliance, an alliance between OneSubsea and Subsea 7, delivers a fully integrated subsea solution. This encompasses a single service delivery for project and risk management, engineering, manufacturing and offshore installation. This is a collaborative model, allowing for optimised schedules and aligned risks, which ultimately lowers the cost of the development for clients.

Our long-term partnership arrangements with our clients are an efficient and effective model to deliver enhanced value that we pioneered over ten years ago in the North Sea. In 2018 Subsea 7 expanded this model with clients in other geographies. Enabled by the deeper relationships with Subsea 7, these partnership clients can achieve superior results and operate with reduced internal resources.

A standalone SURF solution is still the main model chosen by our clients. This model champions client-led solutions whilst still promoting close collaboration, with our clients and their chosen Subsea Production Systems (SPS) provider, in the delivery of the project.

Early engagement is fundamental in optimising the cost of a development across its lifecycle. By engaging its expertise and experience at the concept stage, Subsea 7 is able to evaluate and promote the right technology to reach an optimised solution. This gives confidence to clients that their field development investment is built upon the right solutions, with minimal change and reduced risk as the development moves through its lifecycle stages. With over 50 years' experience in offshore projects, Subsea 7's feedback loop of learning from execution back into the concept stage creates sustainable value for our clients.

Innovation is a Subsea 7 Value; developing and owning the right technology differentiates us and is key to reducing the cost of offshore developments. Our pioneering commercially led technologies are unlocking new field development opportunities due to enhanced project economics and increased production from existing fields.

The development of long-distance tie-backs has been a focus for Subsea 7's technology strategy, transforming the economics of subsea developments of marginal fields. We have a range of solutions that correlate to the tie-back length, including Pipeline Bundles, Electrically Heat Traced Flowlines and Cold Flow technologies. Subsea Integration Alliance is developing integrated technology and innovating new ways of designing subsea infrastructure to help boost production.

In addition to the fixed-price lump-sum SURF contracts, Subsea 7 has four 550 tonne top tension Pipe Lay Support Vessels (PLSV) on long-term day rate contracts with Petrobras. Subsea 7 has a long history of operating in the deepwaters offshore Brazil and our current contracts extend to 2022.

Our Conventional activities are executed in shallower water depths, mainly offshore Nigeria in West Africa, and Saudi Arabia in the Middle East. Following a period of low activity, Conventional work in West Africa began to recover in 2018 and Subsea 7 was awarded, and commenced work on, the PUPP project offshore Nigeria. Our long track record of successful shallow water activities in West Africa has been applied to the Middle East, where activity has increased with the integration of EMAS Chiyoda Subsea (ECS) which was acquired by Subsea 7 in 2017.

SURF and Conventional revenue in 2018

$3,164m

(2017: $2,725m)

Number of active projects (SURF and Conventional)

70

BUSINESS UNIT STRATEGY

Market opportunities

- Deep water projects viable at lower breakeven oil and gas prices in various geographies.
- Applications of new technology and innovative solutions enabling lower-cost brownfield developments.
- Middle East growth continues to offer opportunities to the Conventional market with high volumes of activity.
- Once-in-a-cycle opportunities for investment in distressed assets as market conditions remain challenging.
- Clients' balance sheets and liquidity positions are strengthening, providing capacity to increase capital and operational expenditure.

Strategic objectives

- Continue to offer our clients the right operational model either through integrated SPS and SURF, client partnerships or standalone SURF.
- Enhance our early engagement expertise.
- Continue to deploy business led technology into live developments.
- Move into the execute phase of our digitalisation programme.
- Maintain the market leading capabilities of our fleet of vessels.

LIFE OF FIELD

Our Life of Field business unit is a leading expert in inspection, repair and maintenance (IRM), integrity management, drill rig support, production enhancement and decommissioning support services, operating under the i-Tech 7 brand.

i-Tech 7 provides fully-integrated solutions, engineering services and enabling technologies that protects the integrity and optimises the performance of subsea energy infrastructure, throughout the life of a field. Our portfolio of solutions is underpinned by one of the largest fleets in the industry, comprising 165 Remotely Operated Vehicles (ROVs), over 3,500 tooling products and five chartered life of field vessels. These are managed, crewed and operated by some of the most experienced personnel in the industry.

i-Tech 7 has strategically focused on key markets and clients to expand its global reach. In 2018 our relationship with BP was extended with the award of a multi-year IRM contract in a re-established market for Subsea 7, Azerbaijan in the Caspian Sea. IRM activities are essential in ensuring that our clients' production targets are achieved by minimising unplanned downtime, which can have a significant impact on operational performance and subsequent profitability.

We provide full energy lifecycle services to our clients, from early engineering to decommissioning. Engaging earlier with our clients lowers the total cost of the field, including the operating expense related to activities provided by i-Tech 7. By incorporating life of field solutions into the concept of the field design, Subsea 7 is able to enhance the monitoring, maintenance, intervention and reliability of the subsea system through the field's production life.

Our technical experts work with our clients, partners and suppliers to steer the direction of research and help develop industry leading technologies. Most recently, Subsea 7 enhanced its value proposition by adding digitalisation as a transformational tool for the optimisation of its services. Digitalisation is present throughout Subsea 7, but has been particularly championed within our Life of Field business unit where benefits are achieved in the near term. Digitalisation can extract additional value from the data collected by i-Tech 7. Our teams of experts are continually identifying and developing solutions that can do things quicker, better and more economically than before. In April, i-Tech 7 signed an exclusive partnership with Leidos, a multi-sector expert in digitalisation, to explore and develop further benefits that digitalisation may have for the life of an oil or gas field.

The ultimate aim for i-Tech 7's technology strategy is to reduce the total cost of energy production for our clients. The application of onshore command centres to pilot ROVs is fast becoming a reality, with Operational Control Centres due to be opened in Aberdeen in the UK, and Stavanger in Norway, in early 2019. This is a step towards a reduction in vessel dependency for IRM activities, reducing costs for clients, and delivering a lower carbon solution.

Another i-Tech 7 initiative is our autonomous vehicle programme that reached the field testing phase in 2018. Subsea 7's Autonomous Inspection Vehicle (AIV) is one of the most advanced, fully autonomous, hovering vehicles in the subsea market. The AIV is capable of unmanned inspection of pipelines, umbilicals, risers and subsea structures. Being able to monitor and predict the health of subsea assets through these technologies not only delivers major reductions in inspection costs, but also gives superior support to our clients' decision-making when addressing perceived risks and making life-extension assessments.

Life of Field revenue
$245m
(2017: $302m)

Number of ROVs owned
165

BUSINESS UNIT STRATEGY

Market opportunities

- Fully integrated projects across the full energy lifecycle allows optimisation of clients' operating expenditures by being involved in the concept design of the development.
- New technologies unlocking efficiencies in life of field services such as equipment electrification and digitalisation.
- Expansion in key energy hubs such as South East Asia, Australia and the Caspian Sea.
- Increase in operating expenditure by clients to minimise unplanned downtime on existing subsea infrastructure.

Strategic objectives

- Continue to invest in enhancing our ROVs through electrification technologies, making them faster, more efficient and more environmentally friendly.
- Drive our digitalisation programme to commercialisation.
- Continue to develop technologies with OneSubsea to offer more efficient IRM services.

RENEWABLES AND HEAVY LIFTING

Our Renewables and Heavy Lifting business unit is an experienced partner for the delivery of offshore wind farm projects and specialist heavy lifting and cable-lay services, operating under the Seaway 7 brand.

Seaway 7 delivers an array of services including Engineering, Procurement, Construction and Installation (EPCI), Transportation and Installation (T&I) and Decommissioning across two markets: offshore wind farms, and heavy lifting and cable-lay services for offshore oil and gas developments.

The dominant market at present is the installation of offshore fixed wind farms, delivering the balance of plant package on new fixed foundation wind farm developments. The balance of plant package includes the wind turbine foundations and inner array cables. Seaway 7 also has the expertise and assets to install offshore substations and export cables.

Subsea 7 has been involved in the renewables industry for nearly 10 years. The offshore wind industry is currently dependant on government subsidy, however in mature areas the level of subsidy is decreasing significantly. It is expected in the long term this industry will transition to being subsidy free as the levelised cost of electricity generation continues to reduce with new technologies, and it becomes an economically attractive source of renewable energy. Growth in this market is supported by social and political pressure to move to lower carbon sources of energy supply, particularly in Europe and Asia.

Subsea 7 has over 50 years' experience in the oil and gas construction industry. Experience and assets developed and refined for oil and gas markets are transferable and applicable to the developing renewables industry. In particular Subsea 7's expertise in executing large EPCI projects differentiates it amongst its peers.

In 2018, two major milestones were reached: the substantial completion of the large EPCI Beatrice wind farm project offshore UK, and the first wind farm projects awarded outside Europe in Taiwan and the US. The Beatrice project was the largest to be executed by Subsea 7 in the North Sea, with a revenue of approximately $1.4 billion earned over three years. The safe and on time delivery and installation of 84 turbine foundations and associated substations and array cables will enable the operator to provide 588 megawatts of sustainable power to its customers.

Technology developments in the industry are supporting a lower levelised cost of energy, with BloombergNEF predicting the industry will generate power for under 50$/MWh by 2025, compared to 150$/MWh in 2015, in some geographies. Smaller megawatt wind turbine generators are being superseded by larger turbines, with still larger turbines under development. Larger turbine sizes require stronger foundations, and with a top lifting capacity of 5,000 tonnes, Subsea 7's fleet is well positioned to take advantage of the enlarged scale of these foundations.

Our renewables fleet was enhanced in 2018 with the acquisition of Seaway Offshore Cables (formerly called Siem Offshore Contractors) and two specialist vessels, *Seaway Moxie*, a walk-to-work vessel, and *Seaway Aimery,* a cable-lay vessel. These vessels, although predominantly intended for the Renewables market, have the versatility to support oil and gas projects. The adaptability of Subsea 7's vessels is also evident for the wider fleet, with the pipelay vessel, *Seven Borealis*, having recently completed turbine foundation installation on the Borkum West field offshore Germany, working alongside the dedicated heavy lifting vessel, *Seaway Yudin*.

seaway 7

Renewables and Heavy Lifting revenue

$664m

(2017: $959m)

Number of turbine foundations installed

83

(2017: 33)

BUSINESS UNIT STRATEGY

Market opportunities

- Expansion of the offshore renewables industry into emerging markets such as Taiwan, France and the east coast of the US.
- Technological developments in floating wind energy making it commercially viable.
- Increasing interest shown by clients for EPCI services instead of T&I.

Strategic objectives

- Re-deploy experiences from north-west European projects to new geographies such as Taiwan and the east coast of the US.
- Offer our clients flexibility in contracting models, from full EPCI to segmented T&I services.
- Support our clients as the evolving offshore wind market begins a transition towards a lower subsidy environment.

Committed to operating in a safe, ethical and responsible manner

THE SAFETY AND WELLBEING OF OUR PEOPLE IS A PRIORITY

Safety is our first priority. With workplaces which are potentially hazardous it is essential that the right policies and framework are put in place, allowing our people to work in a safe way. We aim for an incident-free work place every day, everywhere and our policies are continually reviewed to ensure that this is achieved.

In 2018, a mental health resilience training programme was introduced, addressing the mental health and emotional wellbeing needs of the workforce. Ensuring our people are resilient helps keep them safer and makes Subsea 7, as an organisation, more resilient. The success of this training was recognised by the International Marine Contractors Association (IMCA), which awarded Subsea 7 the 2018 IMCA Safety Award at its annual seminar.

Subsea 7's Business Management System underpins the way in which Subsea 7 conducts safety training, reporting, procedures and assessments, which ultimately leads to the way work is carried out at our worksites. Procedures are set at Group level to ensure no matter where in the world the worksite is located, standards and the level of dedication of our people towards safety, are not compromised.

In 2018 no fatalities were recorded and key performance indicators for lost-time incident and recordable incident frequency rates reduced. We recognise that safety incidents and near misses are not acceptable and continually focus to reduce these occurrences.

DRIVING ENVIRONMENTAL SUSTAINABILITY

We have increased our focus on environmental sustainability in 2018, recognising the importance of environmental risks and opportunities to all our stakeholders. Subsea 7 takes a proactive approach to sustainability with technology and innovation programmes, such as our Pipeline Bundles and autonomous ROV programme, that reduce our own and our clients' carbon emissions. Our Environmental Management system is in full compliance and certified to the environmental management standard ISO 14001.

We manage and track key environmental data such as fuel and energy consumption, carbon emissions, waste segregation, spills and other incidents. We monitor trends and performance and measure these against our targets. Through the Carbon Disclosure Project, we provide detailed disclosure that allows all our stakeholders to review our progress. This year's disclosure also focused on our management of climate related risks and opportunities. Subsea 7 has a comprehensive risk management system with procedures and tools that identify, analyse, report and manage business risks, including those related to environmental risks and the effects of climate change. Environmental hazard severity is measured through a points system that reflects the potential impact on the environment should an incident occur.

Over 90% of our emissions come from the use of fuel to power our vessels and our carbon dioxide emissions are therefore proportional to our activity levels. All our vessels are able to operate using low sulphur fuel and do not require any modifications for the new low sulphur limits which will be introduced in 2020. All of our vessels are enlisted in the Norwegian NOx Fund and three have NOx reducing equipment that reduce emissions by 75%.

Our Clean Operations programme ensures our vessels operate to maximise energy efficiency. A clean operation is considered an activity where a vessel's carbon footprint is reduced through activities which save energy without compromising or being in conflict with safety or project execution, an example being efficient transit speeds. Over 3,600 clean operations were recorded on our vessels in the year, reducing our carbon dioxide emissions by over 14,500 tonnes, equating to an operational cost saving of $3.1 million.

The average age of Subsea 7's fleet has been reducing as we invest in newer, cleaner vessels and retire vessels at the end of their useful life. All end of use vessels are recycled in accordance with the Hong Kong Convention and the EU Ship Recycling Regulation. In addition we converted *Seven Viking* from conventional power to battery and diesel hybrid power, which is expected to save up to 20% of the vessel carbon emissions.

Our Renewables and Heavy Lifting business unit continues to enable clean renewable energy to enter the electricity grid. Through its experience in cost optimisation within the oil and gas industry, we are able to aid in reducing the cost of construction of these renewable

OUR 2018 KPIS

Lost-time incident frequency rate (%)
0.05
per 200,000 hours worked

Environmental spill
10.56
litres
per 200,000 hours worked

Carbon emissions
103
Tonnes of carbon dioxide (Scope 1) produced per $1 million in revenue.

Recordable incident frequency rate (%)
0.22
per 200,000 hours worked

Environmental incident frequency rate (%)
0.64
per 200,000 hours worked

Operational cost savings due to Clean Operations programme
$3.1m

developments. In 2018 we invested $155 million in growing our presence in the renewable energy market with the addition of cable-lay capabilities, and we completed the balance of plant installation on the 588 megawatt Beatrice wind farm project, which achieved first energy in August 2018.

RECOGNISING AND VALUING THE STRENGTH IN DIVERSITY

We believe that everyone has the right to be treated with dignity and respect. Our policy on Equal Opportunities and Diversity in Employment ensures our people are able to work in a manner where they are free from all forms of discrimination, including harassment and bullying.

We acknowledge that diversity is key to providing a variety of creative approaches to solving complex problems. Throughout the year a number of initiatives, championed by the Executive Management Team and senior leaders, were introduced with an ultimate aim of increasing our diversity. These initiatives resulted in recommendations within four key topics: leadership commitment and action, revised recruitment and talent management processes, career support for underrepresented groups and a review of working patterns. A new Diversity and Inclusion Strategy steering committee was established in 2018 and is responsible for delivering on these topics.

Subsea 7 has offices and onshore operations facilities in 24 countries worldwide and we have 91 nationalities represented in our workforce. Our local presence and local relationships are central to our ability to deliver projects, including the provision of national content and community investment. We work together with local businesses, organisations and educational establishments to develop local supply chains and partnerships that contribute to the long-term financial growth and social progress in the places we work. In 2018 we delivered over 67 community assistance programmes and events.

COMPLIANCE, ETHICS AND INTEGRITY ARE KEY TO OUR BUSINESS

We are committed to carrying out business in an ethical manner and in compliance with applicable laws wherever we operate. Integrity is one of our Values. We aim to act fairly, honestly and with integrity at all times, and in doing so earn the trust of our clients, business partners, suppliers and other stakeholders. All employees are required to uphold the Code of Conduct, which is underpinned by an annual Compliance and Ethics e-learning campaign. In 2018 a module developed by Transparency International was used to remind employees about the damage caused by bribery and corruption, the risks faced in the energy sector, and how to comply with the Anti-Bribery/Anti-Corruption Policy.

There is a Group-wide anti-bribery and anti-corruption compliance and ethics programme, which is rooted in our Values and designed in accordance with international best practice (including the International Anti-Bribery Management System Standard ISO 37001). It includes frameworks for assessing risks and providing assurance. During 2018 we engaged an independent, external organisation to assess progress made in embedding this programme.

Subsea 7's Head of Compliance and Ethics is responsible for the design and oversight of the compliance and ethics programme, and provides reports to the Corporate Governance and Nominations Committee and to the Executive Ethics Committee. One of the key roles of the compliance and ethics function is to ensure management understands, accepts and fulfils its accountability for compliance and ethics.

RESPECTING AND UPHOLDING HUMAN RIGHTS

We are committed to treating our employees, clients, suppliers and other stakeholders fairly and with respect, and to upholding and respecting human rights. In 2018 we published a new Human Rights Policy Statement, as well as updating our Slavery and Human Trafficking Statement. Together, these documents summarise Subsea 7's commitment and efforts to improve our understanding and management of the potential human rights impacts of our business and, more specifically, to respond to the UK Modern Slavery Act.

We engage in open and constructive dialogue with our people and, if applicable, their representatives. Our people are free to join organisations of their choice that represent them, consistent with local laws. Our whistleblowing policy ensures a mechanism that enables all stakeholders to voice concerns over malpractice or illegality in a responsible and effective way, without concern of reprisal.

We are a leader in full lifecycle project delivery. This means we engage with thousands of suppliers worldwide, and our Supply Chain Management procedures include rigorous selection and appointment criteria. Approved supplier status requires pre-qualification of suppliers from a quality, safety, environment, ethics and anti-corruption perspective. All suppliers are required to comply with the Subsea 7 Code of Conduct for Suppliers, which includes commitments regarding human rights, anti-corruption, safety and the environment.

Nationality mix

46%
Europe

17%
Asia/Pacific

23%
Americas

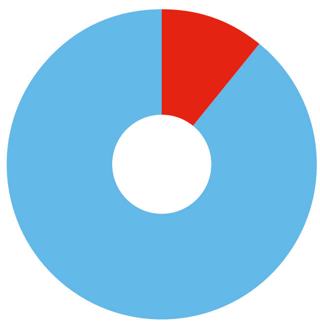
14%
Other

Number of employees completing compliance ethics e-learning

3,989

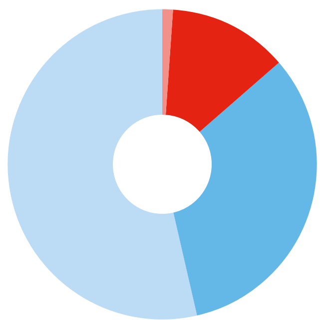
Over 99% completion rate for targeted personnel undertaking compliance and ethics e-learning.

Gender mix at leadership level



Female	11%
Male	89%

Gender mix Company wide



Offshore Female	1%
Onshore Female	12%
Onshore Male	33%
Offshore Male	54%

Principal risks and uncertainties

Effective risk management is fundamental to the Group's performance and creates sustainable value for our stakeholders.

The Group's approach is to identify key risks at an early stage and develop actions to measure, monitor and mitigate their likelihood and impact. This approach is embedded throughout the Group and is an integral part of our day-to-day activities.

The Group's SURF and Conventional business unit generates the majority of the Group's revenue. It executes offshore energy projects which, with the exception of long-term contracts for PLSVs offshore Brazil, are generally contracted on a fixed-price basis. These projects involve the design, engineering, procurement, construction and installation of offshore energy infrastructure on behalf of clients. Offshore systems can be large, highly complex and technologically rich solutions and the environments in which the Group operates can be harsh and challenging. The costs and margins realised on such projects can vary from the original estimated amounts due to a number of factors and could result in the Group incurring a reduced margin or loss on such projects. The Group assesses the risks involved in fixed-price contracts and uses the terms of the contracts to mitigate certain aspects of these risks. The long-term contracts for PLSVs, executed offshore Brazil, have a less challenging risk profile with services contracted on a day-rate basis.

The Life of Field business unit, which operates under the i-Tech 7 brand, has a lower, less complex risk profile but does involve working and planning around the operations of existing, sometimes ageing, infrastructure, to provide ROV and Inspection, Repair and Maintenance services throughout the life of the field, from first energy to decommissioning. Contracts are typically negotiated on a day-rate reimbursable basis using industry standard contracting terms which offer a balanced risk profile. With a strong focus on technology development, this business unit could be impacted by a failure of our strategy to offer a more technology and product driven service to clients.

The Group's Renewables and Heavy Lifting business unit operates under the Seaway 7 brand to deliver offshore wind farm projects and specialised heavy lifting and cable-lay services for offshore energy developments. The Group is one of a few operators that can provide EPCI expertise for the execution of offshore wind farm projects, which are usually contracted on a lump-sum basis. The Group may choose to hold an equity stake in the companies established to own and operate the wind farms in conjunction with an EPCI contract. The offshore wind market is less mature, less geographically diverse and in most cases involves a different client base with differing ways of contracting compared to the SURF and Conventional business unit. These factors can exacerbate episodic increases or decreases in project activity. When contracting on a Transportation and Installation (T&I) basis, the breadth of the Group's expertise is less critical, and so more providers may be able to compete for the contract compared to an EPCI contract and the time between tender and execution of the contracts may be shorter.

The Group operates in a cyclical industry where activity is strongly influenced by the current and forecast price of energy, including any subsidies, as well as the impact following decisions taken by governing bodies. The Group's risk management processes assist the Group to respond to changes in activity levels and apply appropriate measures to adjust its cost base as far as practical whilst at the same time ensuring that an acceptable risk profile is maintained.

ROLES AND RESPONSIBILITIES

The Board of Directors has oversight of the Group's risk management activities and internal control processes. The Executive Management Team is responsible for monitoring and managing operational and enterprise risk in pursuit of the Group's business objectives. The Executive Management Team is responsible for designing and implementing appropriate systems and procedures for the identification and management of risks, while ensuring that, within a given risk appetite, the business is able to optimise stakeholder value.

The CEO determines the level of risk which can be taken by the business units and by region, country and functional management. This is managed through Group policies and delegated authority levels which provide the means by which risks are reviewed and then escalated to the appropriate management level within the Group up to and including the Board of Directors for review and approval.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks are those risks that, given the Group's current position, could materially threaten its business model, future performance, prospects, solvency, liquidity, reputation, or prevent the Group from delivering its strategic objectives.

The means which the Group employs to mitigate or eliminate these risks are set out below.

Additional risks and uncertainties that the Group is unaware of, or that it currently deems immaterial, may in the future have a material adverse effect on the Group's reputation, operations, financial performance and position. However, the Board of Directors believes that the Group's risk management and internal control systems have assisted, and will continue to assist, the Group to identify and respond to such risks.

MARKET RISKS

Risk	Mitigation
Strategic	
The Group recognises the need to provide certain clients with comprehensive service packages and is committed to offering solutions whereby the Group engages earlier in the engineering and design stage as well as offering vertically integrated solutions in alliance with other companies. To participate in the projected increase in demand for integrated solutions, the Group has established vertically integrated SURF and SPS solutions through Subsea Integrated Alliance, its alliance with OneSubsea and other collaborative partnerships. Integrated solutions consolidate risk into one shared contractual framework, meaning that the risk profile to the Group is wider. There is a risk that the Group does not have sufficient knowledge or ability to manage, protect or mitigate the risks associated with vertically integrated solutions that were previously managed by other parties. A failure of our strategy to offer more technology and design led solutions could impact the growth of the business and affect its position as a market leader. From time to time the Group may engage in strategic mergers, partnerships, joint ventures and acquisitions to support this growth. This brings risk in the form of incorrect assessment of the target market, new and inherited legal and contractual liabilities as well as operational and financial risk. It also carries the risk of failure to integrate the new businesses and their resources into the Group and the failure to deliver on its strategic objectives.	These risks are mitigated through considered selection of alliance and collaborative partners and pre-identified ways of working. In addition, the Group has a procedure to establish, at tender stage, a risk sharing methodology to complement the project. The Group also continues to maintain disciplined contracting principles to mitigate increased risk. The Group has internal resources and external advisors to engage in thorough due diligence and also ensures that an experienced project management team is deployed to manage acquisition or merger opportunities. The project team ensures operational management is engaged in the integration process immediately after an acquisition or merger to ensure it is successfully executed.
Economic	
The Group's business depends on the level of activity in the segments of the energy industry in which it operates and, consequently, any significant change in the level, timing or nature of clients' expenditure plans could adversely impact the Group's order intake, financial performance and position. A rapid increase or decrease in demand for the Group's services could outpace the Group's ability to resize its capacity for service provision. Our clients' financial strength and the economic viability of their projects can be impacted by fluctuating energy prices which in turn can be driven by political conditions and technological development as well as decisions taken by OPEC and non-OPEC members on production levels. Our clients in the renewable sector may oblige contractors to invest in a minority equity stake in the energy development project as part of the requirements to tender, increasing the Group's financial exposure relating to the success or failure to achieve first power as planned.	The Group closely monitors market activity and collaborates with its clients to understand their future project and expenditure plans. Early engagement in the design phase of the energy project enables the Group to better assess the risks and opportunities of the project as it progresses towards construction. The financial strength and solvency of our clients is a specific area of focus before entering into contracts. The Group has successfully reduced costs and continues to look for ways to improve efficiency and productivity to respond to market demand to optimise costs. It also seeks to diversify selectively into new markets which allow the Group to leverage its resources and competencies, as well as into other geographies requiring its services. In addition, the Group reviews and adjusts its capacity, as necessary, to reflect the current and forecast near-term activity levels, whilst retaining and investing in capability.
Competition	
The Group faces competition to win contracts needed to assure a sustainable backlog of future work across all business units. This competition may result in pricing pressures or a change to a contractor's risk profile, as our competitors strive to win contracts and secure work. Contractual terms which are more onerous for the contractor and increase liabilities, both actual and contingent, can have an adverse impact on the Group's financial performance and position. Furthermore, the competitive landscape has reacted to the lower oil price environment in the form of alliances and vertical and horizontal consolidation to achieve economies of scale and wider control of the value chain. Such initiatives could represent a threat to the Group's profile as a specialised offshore service provider.	The Group endeavours to reduce its exposure to competition by differentiating itself from competitors. The Group's experience and resources, in particular its people, versatile and modern fleet and proprietary technology offerings, help it respond effectively to challenges from competitors. The Group seeks, within the framework of the businesses' contractual risk profile, to support and maintain industry recognised balanced contracting forms. A further differentiator is the Group's ability and experience in partnering with clients and forming alliances with other oilfield services companies to offer packaged solutions and to contribute to the early development stages of projects, as well as offering cost-effective and efficient technical solutions to its clients.

BUSINESS ENVIRONMENT RISKS

Risk	Mitigation
Geographic The Group operates and tenders for work in many countries worldwide, each with specific political, economic and social characteristics which can give rise to various risks and uncertainties that can adversely impact project execution and financial performance, including but not limited to: • Economic instability • Legal, fiscal and regulatory uncertainty and change • Onerous local content obligations • Sanctions and export controls • Civil or political unrest, including war • Regime change	Country or regional risks are identified and evaluated before and throughout Group operations in such markets. Appropriate risk responses are developed and implemented to mitigate the likelihood and impact of identified risks. The Group adopts a proactive and rigorous approach to assessing and mitigating these risks and, where possible, looks to develop local or regional management teams to strengthen its knowledge of and presence in the countries of operation.
Technological innovation The Group's clients seek cost-effective solutions to develop energy resources, particularly in deep waters and challenging offshore environments. This may require the implementation of new technologies. Any failure by the Group to anticipate or respond appropriately to changing technology, market demands and client requirements could adversely affect the Group's ability to compete effectively for, and win, new work. Introducing technology which is insufficiently mature or unsatisfactorily implemented when selected by our client as a valid solution could have an adverse reputational and financial impact for the Group.	The Group monitors industry trends and collaborates with clients to understand their technology requirements. This allows the Group to effectively invest in developing differentiated and cost-effective technologies to meet current and anticipated client demand. In developing new technologies, the risks associated with selecting and pursuing appropriate technological solutions, technical completion, commercialisation and successful implementation are carefully considered and addressed through 'gate controls' operated by knowledgeable and experienced Subsea 7 personnel.

ORGANISATION AND MANAGEMENT RISKS

Risk	Mitigation
People Failure to attract and retain suitably skilled and capable personnel could adversely impact the Group's ability to execute projects and its future growth prospects. Increased competition from other offshore service companies for skilled personnel as the market improves could result in rising employee attrition and create a lack of resources and/or increased compensation costs for the Group. In addition, there is a risk of failure to integrate business cultures and personnel following business growth through acquisition activities.	The Group sees the importance of health and wellness in the workplace and seeks to offer working groups, seminars and health initiatives across its locations and vessels. The Group utilises medium-term business projections to assess resource requirements which allows timely, corrective intervention to appropriately resource the organisation in terms of size, profile, competency mix and location. The Group monitors attrition by function and geography and has developed appropriate remuneration and incentive packages to help attract and retain key employees. Performance management and succession planning processes are in place to help develop staff and identify high-potential individuals for key roles in the business. Integration plans, including training and ongoing communication programmes covering all operational functions and business activities, are adopted at acquisition.

ORGANISATION AND MANAGEMENT RISKS CONTINUED

Risk	Mitigation
Compliance and ethics The Group is committed to conducting business in accordance with applicable law and the highest ethical standards. However, there is a risk that its employees, representatives or other persons associated with it may take actions that breach the Group's Code of Conduct or applicable laws, including but not limited to anti-bribery, particularly in countries perceived to be at high risk of corruption. Any such breach could result in monetary penalties, convictions, debarment and damage to the Group's reputation and could therefore impact its ability to do business.	Integrity is one of the Group's core Values and the Group has an Ethics Policy Statement and Code of Conduct which clearly set out the behaviours expected of its employees and those who work with it. The Group has a compliance and ethics programme underpinned by its values and designed in accordance with international best practice to embed the Code of Conduct and to prevent bribery and corruption. The programme includes financial controls, supply chain management procedures, and procedures for managing third-party risks. Mandatory annual compliance and ethics e-learning for employees raises awareness, highlights the whole range of consequences and encourages compliance. Employees are encouraged to raise concerns about possible non-compliance via an externally administered whistleblowing helpline. A committee comprising members of the Executive Management Team sets objectives for the implementation of the compliance and ethics programme and monitors progress. Regular reports are provided to the Board. The Group regularly engages an independent third-party assurance provider to benchmark its compliance and ethics programme against best practice including International Standard ISO 37001.
Information technology, cyber risks and security The Group's operations depend on the availability and security of a number of key IT systems. These systems could be disrupted or compromised by a general IT failure or cyber crime risks including but not limited to: • Unauthorised system access including to key operational financial or corporate systems • Malware (including computer viruses) • Theft and misappropriation of data and sensitive information • Targeted fraud attacks • Data management and non-compliance with legislation such as the EU General Data Protection Regulation (GDPR) • Increasing use of IT to interconnect with multiple stakeholders and the possibility of such interconnectivity being disrupted to the detriment of the multiple stakeholders Such breaches in IT security could adversely impact the Group's ability to maintain ongoing business operations and lead to financial and asset loss, reputational damage, loss of client and shareholder confidence and regulatory fines.	The Group recognises the increased incidence of cyber security threats and continually reviews its infrastructure, policies, procedures and defences to mitigate associated risks, engaging market-leading specialists where appropriate. The Group has a number of IT policies, including a policy on information security, designed to protect its systems and ensure their availability and integrity as well as combating attempted fraud. These policies are regularly reviewed to ensure they continue to address existing and emerging information security, cyber maritime and cybercrime risks as well as GDPR. Mandatory internal e-learning courses are used to maintain a high level of awareness among employees of IT security risks and of the Group's procedures to manage them. Furthermore, the Group maintains a programme of regular investment in new hardware, software and systems to ensure the integrity of its IT security defences.

DELIVERY AND OPERATIONAL RISKS

Risk	Mitigation
Bidding The Group wins most of its work through a competitive tendering process. A significant proportion of the Group's work is undertaken by way of fixed-price contracts which exposes the Group to increases in supply chain costs. Failure to secure and manage costs could impact the Group's financial performance. An inability to understand and respond to operational and contractual risks or accurately estimate project costs could have an adverse impact on the Group's legal liability and financial performance and position.	All bids are subject to the Group's estimating and tendering processes and authority levels. Cost estimates are prepared on the basis of a detailed standard costing analysis, and the selling price and contract terms are based on the Group's commercial contracting standards and market conditions. Before the tender is submitted, a formal review process is performed. Tenders are first reviewed at a region level where the technical, operational, legal and financial aspects of the proposal are considered in detail. Completion of the region review process requires the formal approval of the appropriate level of management. Dependent on the tender value, there is an escalating level of approval required. Tenders meeting specific financial and risk criteria are reviewed and approved by a Committee of the Board of Directors.

DELIVERY AND OPERATIONAL RISKS CONTINUED

Risk	Mitigation
Realisation and renewal of backlog Delays, suspensions, cancellations and scope changes to awarded projects in backlog could materially impact the financial performance and position of the Group in current and future years.	The Group works to mitigate these risks through its contract terms, including, where possible, provision for cancellation fees or early termination payments.
Joint ventures The Group may engage in joint ventures with selected partners to obtain the necessary expertise or local knowledge and contract or partner with specialist companies to develop new or emerging business opportunities. A failure to find an appropriate joint venture partner or a failure by a joint venture partner to perform to the standards required by the joint venture agreement could result in negative financial and reputational impact to the Group. Misalignment between Subsea 7 and a joint venture partner on the strategy for the joint venture could lead to a deadlock, impacting negatively, inter alia, on project execution. In addition, the failure of a joint venture partner to meet its financial obligations could result in an adverse impact on the Group's financial performance and position.	The Group seeks to ensure that selected joint venture partners not only have the necessary expertise, local knowledge and suitable financial profile but are also able to meet the Group's health, safety, security, environmental and quality standards (HSSEQ) and its Code of Conduct obligations. The Group endeavours to establish appropriate governance and oversight mechanisms to monitor the performance of its joint ventures and joint venture partners with regards to such matters.
Project execution The Group executes complex projects and a failure to meet contractual requirements could have several adverse consequences, including contract disputes, rejected claims and cost overruns, which could adversely impact the Group's financial performance, position and reputation. For most contracts, the offshore execution phase, which generally involves the use of either single or multiple vessels, is usually the most hazardous as this phase is exposed, among other risks, to adverse weather conditions or the risk of loss or damage to the contracted works. These hazards can result in unforeseen delays to the project; damage to vessels and equipment; repair or rework; injury to those working offshore; or increased financial loss associated with the delay.	The Group assigns a project management team to every project. Every project is assessed by regional management using the Project Monthly Status Report review process. These reviews cover project progress, risk management, cost management, financial performance and sensitivity analysis. Detailed assessments of costs and revenues are estimated and reported upon, taking into account project performance, planning schedules, contract variations, claims, allowances and contingency analysis. The Group factors the risk of adverse weather conditions into the design of its vessels, equipment and procedures and project scheduling, as well as the training of its offshore workforce. It also works to mitigate potential adverse financial consequences when negotiating contractual terms with its clients.
Supply chain Failure of a key supplier could result in disruption to the Group's ability to complete a project in a timely manner. In periods of increased activity, there is a risk that the supply chain does not react at the same pace as demand and insufficient capacity causes a deterioration in the quality of the product or service. Unexpected increases in supply chain costs could result in higher project costs that impact the Group's profitability. The resultant time delays or increased costs could lead to irrecoverable costs to the Group and the imposition of financial penalties by clients as well as reputational damage and reduced competitiveness.	The financial profile and outlook of the Group's key suppliers is reviewed during the pre-qualification process for vendors and is considered prior to signing project-related contracts. If necessary, appropriate guarantees or performance-related bonds are requested from our key suppliers. In addition, the Group seeks to develop strong long-term relationships with high-quality and competent suppliers, working to balance costs at a sustainable level and not only engage on a lowest bid basis.
Health, safety, security, environmental and quality The Group's projects are complex and are sometimes performed in unfamiliar environments in varied conditions. This requires continuous monitoring and management of health, safety, security, environmental and quality (HSSEQ) risks associated with the project specification and installation method as well as addressing the location and assets utilised. A failure to manage these risks could expose our people and those who work with us to injury or harm. It could result in an environmental event or cause injury or damage to other parties. It could result in significant commercial, legal and reputational damage or potential disbarment from the affected country.	The Group is focused on continuous HSSEQ performance at all levels and actively motivates, influences and guides employees' individual and collective behaviour. The Group is committed to protecting the health and safety of its people and those working on its sites and vessels as well as minimising our impact on the environment. The Group has an HSSEQ policy and detailed HSSEQ procedures designed to identify, assess and reduce such risks while ensuring compliance with relevant laws and regulations. The policy and procedures are subject to review, monitoring and certification by an independent, internationally recognised specialist firm.

DELIVERY AND OPERATIONAL RISKS CONTINUED

Risk	Mitigation
Fleet management The Group has a fleet of vessels which are required for the successful delivery of its projects. These vessels operate in a number of regions which are subject to political, fiscal, legal and regulatory risks. This also includes regulatory requirements related to the crewing of the vessels in the territories where they are operating. Failure to manage such risks could lead to an adverse impact to the Group's financial performance and position. Lack of vessel availability is a risk. Uncertainty in operational vessel schedules may lead to non-availability for other projects in the tendering or execution phase. Vessel availability could also be negatively impacted by delays to vessel construction, completion of maintenance, vessel upgrading and dry-docking activities. In extreme circumstances, the non-availability of a vessel or multiple vessels through loss or irreparable damage could compromise the Group's ability to meet its contractual obligations and cause financial loss. To maintain the competitiveness of the fleet, the Group from time to time makes significant investments in the construction or acquisition of new vessels. If the anticipated demand for those vessels does not materialise, such investments may not generate the intended financial return.	The Group considers carefully the political, fiscal, legal and regulatory risks associated with the deployment of its vessels and crew into regions in which it operates, and monitors developments to ensure it is able to respond appropriately. To minimise the risk of non-availability the Group dedicates resources to perform vessel scheduling centrally rather than at a business unit or region level. Vessel construction, maintenance, upgrading and dry-docking activities are subject to detailed planning and controls are deployed to mitigate the risk of completion delays. The design and operational capabilities of a vessel are carefully assessed before its deployment to a particular project and are then closely monitored during the project's execution. The impact of potential non-availability of a vessel is mitigated by both the size and flexibility of the Group's fleet and its ability to access the vessel charter market. Before initiating the construction or acquisition of new vessels, the Group conducts detailed analyses of the potential market and seeks to ensure that the vessels' technical specifications and projected capital and operating costs are appropriate for the anticipated market. In addition, the Group actively pursues long-term contracts with clients to underpin the investment in new vessels with a view to generating the intended financial returns.

FINANCIAL RISKS

Risk	Mitigation
Revenue and margin recognition Individual period performance may be significantly affected by the timing of contract completion, at which point the final outcome of a project may be fully assessed. Until then, the Group, in common with other companies in the sector, uses the percentage-of-completion method of accounting for revenue and margin recognition. This method relies on the Group's ability to estimate future costs in an accurate manner over the remaining life of a project. As projects may take a number of years to execute, this process requires a significant degree of judgement, with changes to estimates or unexpected costs or recoveries potentially resulting in significant fluctuations in revenue and profitability. Inaccurate forecasting of the costs to complete a project and of the revenues which can be earned from the client for changes to contract scope could have a negative impact on the Group's management of its liquidity and weaken its financial position. Fixed-price contracts awarded at low or negative margins can create volatility when accounting for project performance as forecast losses are recognised in full as soon as they are identified.	Project performance is monitored by means of Project Monthly Status Reports (PMSRs) which record actual costs of work performed, the estimated cost to complete a project and the estimated full-life project revenue. The PMSR allows management to reliably estimate the likely outcome in terms of profitability of each project. These PMSRs are subject to rigorous review and challenge at all key levels of management within the Group. Note 4 "Critical accounting judgements and key sources of estimation uncertainty" to the consolidated financial statements provides more detail of the Group's approach to revenue recognition on long-term contracts.
Cash flow and liquidity The Group's working capital position will be affected by the timing of contract cash flows where the timing of receipts from clients, typically based on completion of milestones, may not necessarily match the timing of payments the Group makes to its suppliers. In executing some of its contracts the Group is often required by its clients in the normal course of business to issue performance-related bonds and guarantees. Access to credit from financial institutions in support of these instruments is fundamental to the Group's ability to compete, particularly for large EPCIC contracts. The availability of short-term and long-term external financing is required to help meet the Group's financial obligations as they fall due. In the event that such financing were to be unavailable or withdrawn, the Group's activities would be significantly constrained.	The Group seeks, through committed banking facilities, to meet its working capital needs and to finance the acquisition or construction of new assets. The Group's cash position, access to liquidity and debt leverage are monitored closely by both the Executive Management Team and the Board of Directors.

INTERNAL CONTROL

The Board of Directors is responsible for oversight of the Group's system of internal controls and for reviewing its effectiveness. The Board of Directors recognises that any system of internal controls can only provide reasonable and not absolute assurance that material financial misstatement and/or fraud will be detected or that the risk of failure to achieve business objectives is eliminated.

The Group's systems of internal controls operate through a number of processes. The more significant include:

- Delegated authority level matrices with certain matters being reserved to the Board of Directors
- Annual review of the strategy, plans and budgets of individual business units to identify the key risks to the achievement of the Group's objectives
- Monthly financial and operational performance reviews against budget
- Individual tender and contract reviews at various levels throughout the Group
- Capital expenditure and investment reviews and authorisation
- Regular reviews and reporting on the effectiveness of the Group's health, safety, security, environmental and quality (HSSEQ) processes
- Group Treasury policies
- Group Taxation compliance and reporting policies and systems
- The Group's whistleblowing policy, which allows individuals to raise concerns in confidence about potential breaches of the Code of Conduct
- Quarterly reporting to the Executive Management Team from the Global Applications and Systems Steering Committee (GASSC) on the integrity and security of our business and IT systems including cyber risk
- Cyclical reviews of all non wholly-owned subsidiaries, joint ventures and associates by the Joint Venture Steering Committee

The Group's internal audit function, which reports directly to the Audit Committee, performs independent reviews of key business financial processes and controls and other areas considered to be of high business risk. The Audit Committee annually reviews and approves the internal audit plan and receives regular updates on internal audit's findings and the actions taken by management to address them.

Governance overview

"As a Board our goal is to promote the success of the Company for the benefit of all of our stakeholders."

Allen Stevens
Chairman of the Corporate Governance and Nominations Committee

Having been appointed Chairman of the Corporate Governance and Nominations Committee in 2018, this is my first report on corporate governance. I would like to begin by thanking Sir Peter Mason and Mr Robert Long on behalf of the Board for their years of dedicated and exemplary service as Senior Independent Director and Independent Director respectively. Sir Peter in his capacity as Chairman of the Corporate Governance and Nominations Committee was instrumental in establishing and maintaining Subsea 7's commitment to good corporate governance. I am honoured that the Board has entrusted me to succeed in the role of Senior Independent Director, whose function is to ensure a culture of good corporate governance and compliance. Good corporate governance underpins the delivery of our vision and our stakeholders should rest assured that Subsea 7 will continue to strive to achieve the highest standards.

2018 was a busy year for Subsea 7 from a corporate governance standpoint, including the appointments to the Board of two new independent directors, Mr David Mullen and Mr Niels Kirk. One of the key roles of the Corporate Governance and Nominations Committee is to regularly consider Board composition and succession planning in order to guide the Board towards the right balance of diversity, experience and talent needed to steer Subsea 7. Careful consideration was given to these criteria prior to the appointments of Mr Mullen and Mr Kirk (whose biographies are on page 27. Mr Kirk and Mr Mullen have contributed fresh perspectives to the Board and enhanced the Board's skills and experience.

2018 saw the acquisition of 60% of Xodus Group and 100% of Seaway Offshore Cables (previously called Siem Offshore Contractors). In recognition of the related party nature of the latter acquisition, robust corporate governance procedures were employed to ensure the Company was acting in the best interests of all of its stakeholders. These procedures involved full and transparent disclosure of interested parties, and correct management of those interests via the establishment of a sub-committee of the Board to review and challenge the industrial logic of the transaction and to negotiate the terms. Following the success of these acquisitions, management continues to work hard to integrate these businesses into the Subsea 7 Group and to maximise the benefits and opportunities associated with the acquisitions.

During 2018 the Board agreed it would be appropriate to have an external evaluation of the Board's performance in order to, amongst other things, evaluate the procedures being implemented by the Board. The review highlighted that we have an experienced Board with the right procedures in place in terms of regular, effective meetings at both committee and Board level with well-defined targets and a blend of talent and experience that enable us to achieve our common goal of high-quality governance.

In order to ensure our governance procedures are robust the Corporate Governance and Nominations Committee keeps abreast of all relevant legislation. 2018 has seen a focus for us on the Luxembourg legislation regarding non-financial and diversity information. To this end we have a dedicated section in our Annual Report which we believe provides a comprehensive insight into Subsea 7's approach to diversity, environmental matters, social and employee matters, human rights, and anti-corruption and bribery (pages 16 – 17).

We are proud of the work being accomplished on corporate governance and we will continue to build upon and improve our governance structures to run our business for the benefit of all stakeholders.

Governance at a glance

The areas listed below, on which we report on the pages indicated, are aligned with the Norwegian Code of Practice for Corporate Governance.

Board of Directors

	Kristian Siem Chairman	**Allen Stevens** Senior Independent Director[1]	**Jean Cahuzac** Director and Chief Executive Officer
Skills and experience	Mr Siem brings an extensive knowledge of the offshore oil and gas services business worldwide from previous senior executive and non-executive roles combined with long-standing experience as chairman of public companies listed in the USA, UK and Norway. Mr Siem is the founder of the Siem Industries Group and has been Director and Chairman of Siem Industries since 1982. Prior to joining the Group, he held several management positions with the Fred. Olsen Group in the US and Norway. Mr Siem has previously held directorships at Kvaerner ASA and Transocean Inc. He holds a degree in Business Economics.	Mr Stevens brings to the role many years of experience in shipping, finance and management. Mr Stevens started in the shipping industry in financial planning at Sea-Land Service Inc., and subsequently served as Treasurer of McLean Industries Inc. from 1972 to 1988. Mr Stevens served as a Chairman and Director of Erie Shipbuilding from 2006 to 2009, and Chairman of Trailer Bridge Inc. from 2008 until 2012. He has also held senior executive and management positions with Great Lakes Transport Limited. He is a graduate of Harvard Law School and holds a degree in Industrial Engineering from the University of Michigan.	Mr Cahuzac has wide multi-country technical, commercial and general management experience in senior executive roles in the oil and gas services sector spanning a period of 35 years. He worked at Transocean in Houston, USA, from 2000 until April 2008 where he held the positions of Chief Operating Officer and then President. Prior to this, he worked at Schlumberger from 1979 to 2000 where he served in various positions. He holds a Master's degree in Engineering from École des Mines de St-Étienne and is a graduate of the French Petroleum Institute in Paris.
Date of appointment	Appointed Director and Chairman from January 2011. Prior to the merger of Acergy S.A. and Subsea 7 Inc. in January 2011 Mr Siem was Chairman of Subsea 7 Inc. from January 2002.	Appointed a Non-Executive Independent Director from January 2011 and Senior Independent Director from May 2018. Prior to the merger of Acergy S.A. and Subsea 7 Inc. in January 2011 Mr Stevens was Independent Director of Subsea 7 Inc. from December 2005.	Appointed a Director from May 2008 (then named Acergy S.A.) and has held the position of Chief Executive Officer since April 2008.
Committee membership	C G	C G	None
Key external appointments	Chairman of Siem Industries Inc. Director of Siem Offshore Inc., Siem Shipping Inc. (formerly Star Reefers Inc.) and Frupor S.A.	Vice President and director of Masterworks Development Co., LLC.	None
Nationality and date of birth	1949	1943	1954
Tenure	Re-elected by shareholders on 12 April 2017 and expiring at the 2019 AGM.	Re-elected by shareholders on 12 April 2017 and expiring at the 2019 AGM.	Re-elected by shareholders on 17 April 2018 and expiring at the 2020 AGM.

Committee key

- Chairman
- C Compensation Committee
- G Corporate Governance and Nominations Committee
- A Audit Committee

Eystein Eriksrud

Director

Mr Eriksrud brings to his role extensive legal expertise in commercial and corporate affairs combined with senior executive experience in the offshore energy and shipping industries. He was previously a partner of Norwegian law firm Wiersholm Mellbye & Bech, from 2005 to 2011. He joined Siem Industries in October 2011 and is currently Deputy Chief Executive Officer of the Siem Industries Group and holds a number of Directorships within the Siem Industries Group. He is a Candidate of Jurisprudence from the University of Oslo.

Appointed a Non-Executive Director from March 2012.

A

Deputy Chief Executive Officer of the Siem Industries Group.

Chairman of Siem Offshore Inc., Electromagnetic Geo-services ASA and Flensburger Schiffbau-Gesellschaft mbH. & Co. KG.

Director of various companies in the Siem Industries Group.

1970

Re-elected by shareholders on 17 April 2018 and expiring at the 2020 AGM.

Dod Fraser

Independent Director[1]

Mr Fraser brings comprehensive experience in corporate finance and investment banking both internationally and in the United States. This is supplemented by extensive knowledge of corporate governance in his current and prior appointments as audit committee member. Mr Fraser served as a Managing Director and Group Executive with Chase Manhattan Bank, now JP Morgan Chase, leading the global oil and gas group from 1995 until 2000. Until 1995 he was a General Partner of Lazard Frères & Co. Mr Fraser has been a trustee of Resources for the Future, a Washington-based environmental policy think-tank. He is a graduate of Princeton University.

Appointed a Non-Executive Independent Director from December 2009 (then named Acergy S.A.).

A

Director of Rayonier Inc.

Director of Fleet Topco Limited.

1950

Re-elected by shareholders on 12 April 2017 and expiring at the 2019 AGM.

Niels Kirk

Independent Director[1, 2]

Mr Kirk brings to the role over 30 years of international corporate and structured finance experience combined with extensive knowledge of the energy, power and resource sector at executive level. He worked at Citibank for over 25 years where his most recent appointment was Chairman & Managing Director of Energy & Natural Resources in Europe, the Middle East and Africa until 2018. Prior to Citibank, he worked at Banque Paribas for five years. Mr Kirk is a member of the Advisory Council of Advanced Power, which develops, acquires, owns and manages power generation and related infrastructure projects in Europe and North America. He holds an MBA in Finance and International Business from the Stern School at New York University.

Appointed a Non-Executive Independent Director from April 2018.

C A

Co-founder and CEO of Kirk, Lovegrove and Company Ltd.

1962

Elected by shareholders on 17 April 2018 and expiring at the 2020 AGM.

David Mullen

Independent Director[1, 2]

Mr Mullen brings over 30 years' experience in the oil services business. He has previously held the position of CEO at two other companies in the subsea industry, Wellstream Holdings PLC and Ocean Rig ASA. Prior to these appointments he was Senior Vice President of Global Marketing, Business Development and M&A at Transocean from 2005 to 2008. Mr Mullen also had a 23-year career at Schlumberger, including as President of Oilfield Services for North and South America. He holds a Bachelor of Arts degree in Geology and Physics from Trinity College, Dublin, and a MSc degree in Geophysics from the National University of Ireland.

Appointed a Non-Executive Independent Director from April 2018.

G

CEO and Director of Shelf Drilling Limited.

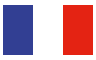
1958

Elected by shareholders on 17 April 2018 and expiring at the 2020 AGM.

[1] As used above, 'independent' is defined by the rules and codes of corporate governance of the Oslo Børs on which Subsea 7 S.A. is listed, which the Board must satisfy, in particular the Norwegian Code of Practice for Corporate Governance. Under the terms of the Company's Articles of Incorporation, Directors may be elected for terms of up to two years and serve until their successors are elected. Under the Company's Articles of Incorporation, the Board must consist of not fewer than three Directors.

[2] Sir Peter Mason and Robert Long retired, and Niels Kirk and David Mullen were appointed, as Directors on 17 April 2018.

Executive Management Team

	Jean Cahuzac Chief Executive Officer	**John Evans** Chief Operating Officer	**Nathalie Louys** General Counsel
Skills and experience	Jean's full biography is included under Board of Directors on page 26.	John started his career in the oil and gas engineering and contracting sector in 1986, working with Kellogg Brown & Root (KBR). During 18 years with KBR he gained a successful record in general management, commercial and operational roles in the offshore oil and gas industry. Prior to joining Subsea 7, between 2002 and mid-2005 John was Chief Operating Officer for KBR's Defence and Infrastructure business in Europe and Africa. John has a Bachelor of Engineering degree in Mechanical Engineering from Cardiff University, is a Chartered Mechanical and Marine Engineer and a Chartered Director.	Nathalie began her legal career in 1986, working with Saint-Gobain and Eurotunnel, gaining extensive legal experience across a number of industries. In 1996 she joined Technip, based in Paris, progressing to the role of Vice President Legal – Offshore. In 2006 Nathalie joined Subsea 7 and subsequently worked in a number of senior corporate and operational legal roles. Prior to her current appointment Nathalie was Vice President Legal – Commercial. Nathalie has been admitted to the Paris Bar and has legal qualifications from University Paris I – Panthéon Sorbonne and Paris XI in France and the University of Kent in the UK.
Date of appointment	Jean has been Chief Executive Officer of Subsea 7 since April 2008 and became an Executive member of the Board of Subsea 7 S.A. in May 2008.	John has been Chief Operating Officer of Subsea 7 since July 2005.	Nathalie has been General Counsel of Subsea 7 since April 2012.
Nationality and date of birth	 1954	 1963	 1963

Stuart Fitzgerald

Executive Vice President
Strategy and Commercial

Stuart began his career with a specialist marine engineering consultancy, progressing to Worley Engineering in Australia and Brunei.

Stuart began his career with Subsea 7 in 1998. In 2007 Stuart was appointed as head of Sales and Marketing for Norway and Denmark, and in 2009 became Vice President for Norway. In 2014 he was appointed Vice President Sales and Marketing for the Northern Hemisphere and Life of Field business. In June 2016 Stuart was appointed Vice President Strategy and Technology for the Group which he held until his current appointment.

Stuart has a Bachelor of Engineering degree in Mechanical Engineering and a Bachelor of Science degree in Applied Mathematics from Monash University in Melbourne, Australia.

Stuart was appointed Executive Vice President Strategy and Commercial in January 2018.

1969

Ricardo Rosa

Chief Financial Officer

Ricardo started his career in 1977 with Price Waterhouse in London and transferred in 1981 to Rio de Janeiro. In 1983 he joined Schlumberger where he held various financial positions within the Schlumberger Group, working in Paris, Jakarta, Rio de Janeiro, Caracas, Milan and London.

In 2000 he joined Transocean as Vice President and Controller in Houston, subsequently becoming Senior Vice President for Asia Pacific and Middle East in Singapore and then for Europe and Africa, in Paris. Prior to joining Subsea 7, he was Transocean's Executive Vice President and CFO. Ricardo holds a Masters of Arts degree in Modern Languages from Oxford University and is a member of the Institute of Chartered Accountants in England and Wales.

Ricardo has been Chief Financial Officer of Subsea 7 since July 2012.

1956

Keith Tipson

Executive Vice President
Human Resources

Keith began his career in the engineering and construction project sectors in 1980, working with the Dowty Group. In 1988 he moved to Alstom where he held a number of roles based in Belgium, France, Switzerland and the UK, including the positions of Human Resources Director for the Industrial Equipment Division, the International Network and the Steam and Hydro segments of the ABB Alstom Power joint venture. Prior to joining Subsea 7 he held the position of Senior Vice President Human Resources, Power Sector, based in Paris. Keith has a business degree from the University of West London.

Keith has been Executive Vice President – Human Resources of Subsea 7 since November 2003.

1958

Note

Roles in Subsea 7 are referred to here as the amalgamation of respective roles in the legacy entities i.e. Acergy S.A. and Subsea 7 Inc. including roles prior to or after the Combination of the two businesses in January 2011.

2018 Corporate Governance Report

Regulatory compliance

This section sets out the arrangements the Board has put in place to help ensure that it fulfils its corporate governance obligations, including the application of the principles of the Norwegian Code of Practice for Corporate Governance.

Legal and regulatory framework

Subsea 7 S.A. is a 'société anonyme' organised in the Grand Duchy of Luxembourg under the Company Law of 1915, as amended, being incorporated in Luxembourg in 1993, and acts as the holding company for all of the Group's entities.

Subsea 7 S.A.'s registered office is located at 412F, route d'Esch, L-2086 Luxembourg. The Company is registered with the Luxembourg Register of Commerce and Companies under the designation 'R.C.S. Luxembourg B 43172'. As a company incorporated in Luxembourg and with shares traded on the Oslo Børs and ADRs traded over-the-counter in the US, Subsea 7 S.A. is subject to Luxembourg laws and regulations with respect to corporate governance.

As a company listed on the Oslo Børs, where its shares are actively traded, the Company follows the Norwegian Code of Practice for Corporate Governance on a 'comply or explain' basis, where this does not contradict Luxembourg laws and regulations. The Norwegian Code of Practice for Corporate Governance is available at http://www.nues.no/en/.

The Group's corporate governance policies and procedures are explained below, with reference to the principles of corporate governance as set out in the sections identified in the Norwegian Code of Practice for Corporate Governance dated 17 October 2018.

Articles of Incorporation – nature of the Group's business

As stated in its Articles of Incorporation, Subsea 7 S.A.'s business activities are as follows:

"The objects of the Company are to invest in subsidiaries which predominantly will provide subsea construction, maintenance, inspection, survey and engineering services, in particular for the offshore oil and gas and related industries. The Company may further itself provide such subsea construction, maintenance, inspection, survey and engineering services, and services ancillary to such services.

The Company may, without restriction, carry out any and all acts and do any and all things that are not prohibited by law in connection with its corporate objects and to do such things in any part of the world whether as principal, agent, contractor or otherwise. More generally, the Company may participate in any manner in all commercial, industrial, financial and other enterprises of Luxembourg or foreign nationality through the acquisition by participation, subscription, purchase, option or by any other means of all shares, stocks, debentures, bonds or securities; the acquisition of patents and licences which it will administer and exploit; it may lend or borrow with or without security, provided that any monies so borrowed may only be used for the purposes of the Company, or companies which are subsidiaries of or associated with or affiliated to the Company; in general it may undertake any operations directly or indirectly connected with these objects."

The full text of the Company's Articles of Incorporation, as amended, is available on Subsea 7's website: www.subsea7.com.

Business

The Board of Directors has set strategies and targets for the Company's business.

The Group provides all the products and services required for subsea field development, including project management, design and engineering, procurement, fabrication, survey, installation and commissioning of production facilities on the seabed and the tie-back of these facilities to fixed or floating platforms or to the shore.

Through its Life of Field business unit, the Group offers inspection, repair and maintenance, integrity management, drill rig support, production enhancement and decommissioning support services, operating under the i-Tech 7 brand.

BOARD OF DIRECTORS

KRISTIAN SIEM Chairman	**ALLEN STEVENS** Senior Independent Director	**JEAN CAHUZAC** Director

EYSTEIN ERIKSRUD Director	**DOD FRASER** Independent Director	**NIELS KIRK** Independent Director	**DAVID MULLEN** Independent Director

Note: Sir Peter Mason and Robert Long retired as Directors on 17 April 2018.

The Group also provides services for the delivery of offshore wind farm projects and specialist heavy lifting and cable-lay services, utilising the capability of Seaway Heavy Lifting and Seaway Offshore Cables, wholly owned subsidiaries of Subsea 7, operating under the Seaway 7 brand.

Further details of the Group's business are outlined in the 'Overview' and 'Strategy' sections on pages 2 to 24.

Board of Directors: composition and independence

As a Luxembourg incorporated entity, the Company does not have a corporate assembly.

The Board of Directors comprises seven Directors. The majority of the Directors were, during the financial year 2018, considered independent in accordance with the rules of the Oslo Børs on which Subsea 7 S.A. is listed and the independence criteria of the Norwegian Code of Practice for Corporate Governance.

Biographies of the individual Directors are detailed on pages 26 to 27.

Mr Cahuzac, the Chief Executive Officer (CEO), was first appointed to the Board of Directors in May 2008. The Board of Directors operates controls to ensure that no conflicts of interest exist with respect to his position on the Board of Directors. The charters of the permanent committees do not permit executive management to be members. Accordingly, Mr Cahuzac does not sit on any of the committees. The composition of the Company's Board of Directors and the controls to avoid conflicts of interest are in accordance with both Luxembourg company law and good corporate governance practice.

The Board of Directors endeavours to ensure that it is constituted by Directors with a varied background and with the necessary expertise, diversity and capacity to ensure that it can effectively function as a cohesive body. Prior to proposing candidates to the relevant general meeting for election to the Board of Directors, the Corporate Governance and Nominations Committee seeks to consult with the Company's major shareholders before recommending candidates to the Board of Directors.

Directors are elected by a general meeting for a term not exceeding two years and may be re-elected. Directors need not be shareholders. At a general meeting the shareholders may dismiss any Director, with or without cause, at any time notwithstanding any agreement between the Company and the Director. Such dismissal may not prejudice the claims that a Director may have for indemnification as provided for in the Articles of Incorporation or for a breach of any contract existing between him or her and the Company.

If there is a vacancy on the Board of Directors, the remaining Directors appointed at a general meeting have the right to appoint a replacement Director until the next meeting of shareholders who will be asked to confirm such appointment.

With the exception of a candidate recommended by the Board of Directors, or a Director whose term of office expires at a general meeting of the Company, no candidate may be appointed unless at least three days and no more than 22 days before the date of the relevant meeting, a written proposal, signed by a duly authorised shareholder, shall have been deposited at the registered office of the Company together with a written declaration, signed by the proposed candidate, confirming his or her wish to be appointed.

The Directors of the Board are encouraged to hold shares in the Company as the Board of Directors believes it promotes a common financial interest between the members of the Board of Directors and the shareholders of the Company. Details of the Directors' shareholdings are on page 109.

Work of the Board of Directors

The Board of Directors adheres to a Board Charter which sets out the instructions for the Board.

The main responsibilities of the Board of Directors are:

1. Setting the values used to guide the affairs of the Group. This includes the Group's commitment to achieving its health and safety vision and the Group's adherence to the highest ethical standards in all of its operations worldwide.
2. Integrating environmental improvement into business plans and strategies, and seeking to embed sustainability into the Group's business processes.
3. Overseeing the Group's compliance with its statutory and regulatory obligations and ensuring that systems and processes are in place to enable these obligations to be met.
4. Setting the strategy and targets of the Group.
5. Establishing and maintaining an effective corporate structure for the Group.
6. Overseeing the Group's compliance with financial reporting and disclosure obligations.
7. Overseeing the risk management of the Group.
8. Overseeing Group communications.
9. Determining its own composition, subject to the provisions of the Company's Articles of Incorporation.
10. Ensuring the effective corporate governance of the Group.
11. Approving the remuneration package for the CEO based upon the recommendation of the Compensation Committee.
12. Setting and approving policies.

The Board of Directors' Charter is available on the Subsea 7 website: www.subsea7.com

2018 MEETING ATTENDANCE

	Board	Audit Committee*	Corporate Governance and Nominations Committee*	Compensation Committee
Kristian Siem	11/12		4/4	3/3
Allen Stevens	11/12		4/4	3/3
Jean Cahuzac	12/12			
Dod Fraser	12/12	6/6		
Eystein Eriksrud	11/12	6/6		
Niels Kirk**	7/7	5/6		2/3
David Mullen**	7/7		2/4	
Sir Peter Mason KBE**	4/5		2/4	
Robert Long**	4/5	1/6		1/3

* Additionally, a joint session of the Audit Committee and the Corporate Governance and Nominations Committee was held on 27 February 2018 at which all members of both committees were present.

** Sir Peter Mason and Robert Long retired, and Niels Kirk and David Mullen were appointed, as Directors on 17 April 2018.

Responsibilities during the year

During the year, the Board of Directors sets a plan for its work for the following year, which includes a review of strategy, objectives and their implementation, the review and approval of the annual budget and the review and monitoring of the Group's current year financial performance. In 2019, the Board of Directors is scheduled to convene on seven occasions, but the schedule is flexible to react to operational or strategic changes in the market and Group circumstances.

The Board of Directors has overall responsibility for the management of the Group and has delegated the daily management and operations of the Group to the CEO, who is appointed by and serves at the discretion of the Board of Directors. The CEO is supported by the other members of the Executive Management Team, further details of which are on page 28 to 29. The Executive Management Team has the collective duty to deliver Subsea 7's strategic, financial and other objectives, as well as to safeguard the Group's assets, organisation and reputation. The Board of Directors has internal regulations for its own operation and approves objectives for its own work, as well as the work of the Executive Management Team, with particular emphasis on clear internal allocation of responsibility and duties.

It is the duty of the Executive Management Team to provide the Board of Directors with appropriate, precise and timely information on the operations and financial performance of the Group, in order for the Board of Directors to perform its duties. The Board of Directors has established a Corporate Governance and Nominations Committee, a Compensation Committee and an Audit Committee, each of which has a charter approved by the Board of Directors. Matters are delegated to the committees as appropriate. The Directors appointed to these committees are selected based on their experience and to ensure the committees operate in an effective manner. The minutes of all committee meetings are circulated to all Directors.

The performance and expertise of the Board of Directors are monitored and reviewed annually, including an evaluation of the composition of the Board of Directors and the manner in which its members function, both individually and as a collegiate body. The evaluation of the performance of the Board of Directors during the 2018 year was conducted internally and the results of the evaluation were shared with the Corporate Governance and Nominations Committee. In line with best practice, the evaluation of the performance of the Board of Directors is conducted by an external facilitator every third year. The most recent external review was conducted during 2018 in respect of the year 2017, further details of which are on page 25; accordingly the next external review is due at the end of 2020.

Risk management and internal control

The Board of Directors acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material financial misstatement or loss.

The Group adopts internal controls appropriate to its business activities and geographical spread. The key components of the Group's system of internal control are described in the Risk Management section on pages 18 to 24. The Group has in place clearly defined lines of responsibility and limits of delegated authority. Comprehensive procedures provide for the appraisal, approval, control and review of capital expenditure. The Executive Management Team meets with other senior management on a regular basis to discuss particular issues, including key operational and commercial risks, health and safety performance, environmental factors, and legal and financial matters.

The Group has a comprehensive annual planning and management reporting process. A detailed annual budget is prepared in advance of each year and supplemented by forecasts updated during the course of the year. Financial results are reported monthly to the Executive Management Team and quarterly to the Board of Directors and compared to budget, forecasts, market consensus and prior year results.

The Board of Directors reviews reports on actual financial performance and forward-looking financial guidance.

The Board of Directors derives further assurances from the reports of the Audit Committee. The Audit Committee has been delegated responsibility to review the effectiveness of the internal financial control systems implemented by management and is assisted by the internal audit function and the external auditor where appropriate.

Communication with stakeholders

Implementation and reporting on corporate governance

Subsea 7 S.A. acknowledges the division of roles between shareholders, the Board of Directors and the Executive Management Team. The Group further ensures good governance is adopted by holding regular Board of Directors' meetings, which the Executive Management Team attends and at which strategic, operational and financial matters are presented.

The Group's vision is:

To lead the way in the delivery of offshore projects and services for the energy industry.

The Group's Values focus on: Safety, Integrity, Sustainability, Innovation, Performance and Collaboration.

In pursuit of the six Values, the Group has an Ethics Policy Statement and a Code of Conduct which reflect its commitment to clients, shareholders, employees and other stakeholders to conduct business legally and with integrity and honesty. The Ethics Policy Statement and the Code of Conduct were approved by the Board of Directors and were issued to all Directors, officers and employees and are subject to periodic review and updating.

General meetings

The Articles of Incorporation provide that the Annual General Meeting (AGM) shall be held within six months from the end of the financial year and in 2019 it will be held on 17 April. The notice of meeting and agenda documents for the AGM are posted on the Group's website at least 21 days prior to the meeting and shareholders receive the information at least 21 days prior to the meeting by mail. Documentation from previous AGMs is available on the Subsea 7 website: www.subsea7.com.

All shareholders that are registered with the Norwegian Central Securities Depository System receive a written notice of the AGM. The Company will set a record date as close as practicable to the date of the AGM, taking into account the differing deadlines for ADR and common share proxies. Subject to the procedures described in the Articles of Incorporation, all shareholders holding individually or collectively at least 10% of the issued shares have the right to submit proposals or draft resolutions. All shareholders on the register as at the record date will be eligible to attend in person, or vote by proxy, at the AGM.

Proxy forms are available and may be submitted by eligible shareholders which allow separate voting instructions to be given for each proposed resolution to one of the representatives indicated on the proxy form and also allow a person to be nominated to vote on behalf of shareholders as their proxy. There will be a separate vote for each candidate nominated for election to the Board of Directors. Details will be provided in the resolutions and supporting information distributed to the shareholders ahead of the AGM.

Under Luxembourg law, there are minimum quorum requirements for EGMs but no minimum quorum requirement for AGMs. Decisions will be validly made at the AGM regardless of the number of shares represented if approval is obtained from the majority of the votes of those shareholders that are present or represented.

The Articles of Incorporation of the Company stipulate that the AGM will be chaired by the Chairman of the Board of Directors. However, the Board of Directors ordinarily delegates authority to the Company Secretary to chair the AGM. If a majority of the shareholders request an alternative independent chairman, one will be appointed.

At the AGM, the shareholders, inter alia, elect members of the Board of Directors for nominated terms of appointment, approve the Company's Annual Accounts, the Group's Annual Report and Consolidated Financial Statements, discharge the Directors from their duties for the financial year and approve the statutory auditor's appointment. In accordance with Luxembourg law and the Company's Articles of Incorporation the Chairman of the Board is elected by the Board of Directors based on its insight into who has the most suitable level of understanding of the Company to carry out the duties of the Chairman.

Equity and dividends

Shareholders' equity

Total shareholders' equity at 31 December 2018 was $5.68 billion (2017: $5.89 billion) which the Board of Directors believes is satisfactory given the Group's strategy, objectives and risk profile.

Dividend policy

It is Subsea 7's objective to give its shareholders an attractive return on their invested capital. The return is to be achieved through a combination of dividend payments, share repurchases and an increase in the value of the Company's shares over time through disciplined investment in value-adding growth opportunities. The Board of Directors each year, after evaluating the Company's financial position and re-investment opportunities, may decide to recommend that shareholders approve at the AGM an appropriate dividend. This dividend will normally be paid in the month following its approval at the AGM.

Equity mandates

At the extraordinary general meeting held on 27 November 2014, the Board of Directors' authority to approve the purchase of the Company's shares up to a maximum of 33,216,706 common shares (representing 10% of the issued common shares following the cancellation of 19,626,664 common shares authorised at the 27 November 2014 extraordinary general meeting) was granted until 26 November 2019. This authority is subject to certain purchase price conditions and is conditional on such purchases being made in open market transactions through the Oslo Børs, subject to certain limitations. The Board of Directors was also granted authority for a period ending on 26 May 2020 to cancel shares repurchased under such authorisation and to reduce the issued share capital through such cancellations. An extraordinary general meeting will be held on 17 April of this year at which it will be proposed that the shareholders approve the renewal of these authorities.

An extraordinary general meeting was held on 17 April 2018 at which the Company's shareholders approved the restatement of the authorised share capital at $900,000,000 with any authorised but unissued common shares lapsing on 16 May 2021. Additionally, the Board of Directors was authorised to issue new shares within the authorised unissued share capital. The Board of Directors was authorised to waive, suppress or limit existing shareholders' preferential subscription rights up to a maximum of 32,736,711 common shares (representing 10% of the issued common shares as at 17 April 2018). These authorisations were granted for a period of three years, expiring on 16 May 2021, to reduce inter alia the administrative burden of convening an extraordinary general meeting annually.

Equal treatment of shareholders and transactions with close associates

One class of shares

The Company has one class of shares which are listed on the Oslo Børs. Each share carries equal rights including an equal voting right at annual or extraordinary general meetings of shareholders of the Company. No shares carry any special control rights. The Articles of Incorporation contain no restrictions on voting rights.

Share issues

The Board of Directors is authorised to suppress the pre-emptive rights of shareholders under certain circumstances and within the limits set forth previously. This is to allow flexibility to deal with matters deemed to be in the best interest of the Company.

In the event of the Board of Directors resolving to issue new shares and waive the pre-emptive rights of existing shareholders, the Board of Directors intends to comply with the recommendation of the Norwegian Code of Practice for Corporate Governance that the justification for such waiver is noted in the Stock Exchange announcement relating to such a share issue.

Related party transactions

Any transactions between the Group and members of the Board of Directors, executive management or close associates are detailed in Note 33 'Related party transactions' to the Consolidated Financial Statements.

The Board of Directors will, from time to time, determine the necessity of obtaining third-party valuations on transactions with related parties. Under Luxembourg law, Directors may not vote on transactions in which they are directly or indirectly financially interested.

The Group's Code of Conduct requires any Director or employee to declare if they hold any direct or indirect financial interest in any transaction entered into by the Group.

Freely negotiable shares

Subsea 7 S.A.'s shares are traded as common shares on the Oslo Børs and as ADRs over-the-counter in the US.

All shares are freely negotiable. The Articles of Incorporation contain no form of restriction on the negotiability of shares in the Company.

Corporate Governance and Nominations Committee

Committee members

Allen Stevens
Committee Chairman

Kristian Siem

David Mullen

The Board of Directors has established a Corporate Governance and Nominations Committee. The composition of this Committee is for the Board of Directors to determine in accordance with the Company's Articles of Incorporation. The Board of Directors believes that the Committee, comprising certain members of the Board of Directors, the majority of whom are independent of the Company's main shareholders, has the most suitable level of understanding of the Company to carry out the duties of the Committee.

The Corporate Governance and Nominations Committee's main responsibilities are:

1. Actively seeking and evaluating individuals qualified to become Directors of the Company and nominating candidates to the Board of Directors.
2. Periodically reviewing the composition and duties of the Company's permanent committees and recommending any changes to the Board of Directors.
3. Periodically reviewing the compensation of Directors and making any recommendations to the Board of Directors.
4. Annually reviewing the duties and performance of the Chairman of the Board and recommending to the Board of Directors a Director for election by the Board of Directors to the position of Chairman of the Board.
5. Annually reviewing the Company's corporate governance guidelines, procedures and policies for the Board of Directors and recommending to the Board of Directors any changes and/or additions thereto that they believe are desirable and/or required. These governance guidelines include the following:
   - How the Board of Directors is selected and compensated (for example, the size of the Board, Directors' compensation, qualifications, independence, retirement and conflicts of interests).
   - How the Board of Directors functions (for example, procedures for Board meetings, agendas, committee structure and format and distribution of Board materials).
   - How the Board of Directors interacts with shareholders and management (for example, selection and evaluation of the CEO, succession planning, communications with shareholders and access to management).
6. Overseeing the annual evaluation of the Board of Directors' performance.
7. Overseeing all aspects of Subsea 7's compliance and ethics programme. This will include a regular review of the structure of the compliance function, the scope of its activities and the effective implementation of the programme (including procedures for employees to raise concerns about breaches of the Code of Conduct and for such concerns to be investigated and remediated).
8. Annually reviewing the Committee's own performance.

The Corporate Governance and Nominations Committee Charter is available on the Subsea 7 website: www.subsea7.com.

Compensation Committee

Committee members

Kristian Siem
Committee Chairman

Allen Stevens

Niels Kirk

The Compensation Committee has been established by the Board of Directors to assist in developing a fair compensation programme for executive officers and to ensure compliance with legal requirements as to executive officer compensation. The Compensation Committee's main responsibilities are:

1. Reviewing annually and approving the compensation paid to executive officers of the Company with the exception of the CEO where the Compensation Committee may make a recommendation to the Board of Directors.
2. Establishing annually performance objectives for the Company's CEO and annually reviewing the CEO's performance against objectives and setting the CEO's compensation based on its evaluation.
3. Overseeing the Company's Benefit Plans in accordance with the objectives of the Company established by the Board of Directors.
4. Reviewing executive compensation plans and making recommendations to the Board of Directors on the adoption of new plans or programmes.
5. Recommending to the Board of Directors the terms of any contractual agreements and any other similar arrangements that may be entered into with executive officers of the Company and of its subsidiaries.
6. Approving appointments of the CEO, the CEO's direct reports and certain other appointments.
7. Preparing the report on executive compensation to be included in the Company's Annual Report and Consolidated Financial Statements.
8. Annually reviewing the Compensation Committee's own performance.

The Compensation Committee Charter is available on the Subsea 7 website: www.subsea7.com.

Remuneration of the Board of Directors

The Company's Non-Executive Directors receive remuneration in accordance with their individual roles and committee membership. The Company's Executive Director and CEO's remuneration is detailed in Note 33 'Related party transactions' to the Consolidated Financial Statements. The Directors are encouraged to own shares in the Company but no longer participate in any incentive or share option schemes, with the exception of Mr Cahuzac in his capacity as CEO and as Executive Director. The remuneration of the Board of Directors is approved at the AGM annually as part of the Annual Report and Consolidated Financial Statements and is disclosed in Note 33 'Related party transactions' to the Consolidated Financial Statements.

Directors are not permitted to undertake specific assignments for the Group unless these have been disclosed to and approved in advance by the full Board of Directors.

Remuneration of the Executive Management

The Group's remuneration policy is set by the Compensation Committee. The policy is designed to provide remuneration packages which will help to attract, retain and motivate senior management to achieve the Group's strategic objectives and to enhance shareholder value. The Compensation Committee benchmarks executive remuneration against comparable companies and seeks to ensure that the Group offers rewards and incentives which are competitive with those offered by the Group's peers. The Compensation Committee also seeks to ensure that the remuneration policy is applied consistently across the Group and that remuneration is fair and transparent, whilst encouraging high performance.

Remuneration comprises base salary, bonus, share-based payments, benefits and pension. In benchmarking elements of remuneration against Subsea 7's peers, the Compensation Committee may from time to time take advice from external consultants. Performance-related remuneration schemes define limits in respect of the absolute awards available. These are defined within the scheme arrangements and set out limits regarding the total award in a given year and, in specific instances, the total award available to certain individuals.

Chief Executive Officer remuneration

The remuneration package of the CEO was determined by the Board of Directors on the recommendation of the Compensation Committee. The compensation of the CEO is reported in Note 33 'Related party transactions' to the Consolidated Financial Statements.

Executive Management Team remuneration

The remuneration package of the other five members of the Executive Management Team was determined by the Compensation Committee and is shown in aggregate in Note 33 'Related party transactions' to the Consolidated Financial Statements.

Share ownership of Executive Management Team

Details of share options held and other interests in the share capital of the Company by the Executive Management Team are shown in Note 33 'Related party transactions' to the Consolidated Financial Statements.

Long-term incentive arrangements

The Group currently operates a single long-term incentive arrangement, the 2018 Long-term Incentive Plan ("2018 LTIP"), to reward and incentivise key management. There are also former schemes which are now closed to new awards. Full details of the 2018 LTIP are set out in Note 34 'Share-based payments' to the Consolidated Financial Statements.

Audit Committee

Committee members

Dod Fraser
Committee Chairman

Eystein Eriksrud

Niels Kirk

The Audit Committee is responsible for ensuring that the Group has an independent and effective external and internal audit process. The Audit Committee supports the Board of Directors in the administration and exercise of its responsibility for supervisory oversight of financial reporting and internal control matters and to maintain appropriate relationships with the external auditor. The Chairman of the Audit Committee meets the independence requirements under Luxembourg law.

The Audit Committee's main responsibilities include:

1. Monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity.
2. Monitoring the effectiveness of the Company's and the Group's internal quality controls, internal audit function, financial controls framework and, where applicable, risk management systems.
3. Monitoring the statutory audit of the Company's Annual Accounts and the Consolidated Financial Statements of the Group, in particular its performance, taking into account any findings and conclusions by the competent authority.
4. Reviewing the quarterly, half-yearly and annual financial statements of the Group before their approval by the Board of Directors.
5. Informing the Board of Directors of the outcome of the statutory audit and explaining how the statutory audit contributed to the integrity of financial reporting and the role of the committee in that process
6. Reviewing and monitoring the independence of the external auditor, in particular with respect to the appropriateness of the provision of additional non-audit services to the Company and the Group and putting in place procedures and making recommendations with respect to the selection and the appointment of the external auditor.
7. Reviewing the report from the external auditor on key matters arising from the Group statutory audit and the Company statutory audit.
8. Dealing with complaints received directly or via management, including information received confidentially and anonymously, in relation to accounting, financial reporting, internal controls and external audit issues.
9. Reviewing the disclosure of transactions involving related parties.
10. Annually reviewing the Audit Committee's own performance.

The Audit Committee Charter is available on the Subsea 7 website: www.subsea7.com.

The terms of reference of the Audit Committee, as set out in the Audit Committee Charter, satisfy the requirements of applicable law and are in accordance with the Articles of Incorporation.

The Chairman of the Audit Committee is Dod Fraser, whose biography can be found on page 27. The Board of Directors has determined that Mr Fraser is the Audit Committee's financial expert and competent in accounting and audit practice with recent and relevant financial experience. The Audit Committee's Charter requires that the Audit Committee shall consist of not less than three Directors. The Audit Committee meets at least four times a year and its meetings are attended by representatives of the external auditor and by the head of the internal audit function.

Auditor

The external auditor meets the Audit Committee annually regarding the planning and preparation of the audit of the Group's Consolidated Financial Statements and the Company's Annual Accounts.

The Audit Committee members hold separate discussions with the external auditor during the year without the Executive Management Team being present. The scope, resources and level of fees proposed by the external auditor in relation to the Group's audit and related activities are approved by the Audit Committee.

The Audit Committee recognises that it is occasionally in the interest of the Group to engage its external auditor to undertake certain other non-audit assignments. Fees paid to the external auditor for audit and non-audit services are reported in the Consolidated Financial Statements of the Group, which are in turn approved at the AGM. The Audit Committee also requests the external auditor to confirm annually in writing that the external auditor is independent.

Take-overs

Subsea 7 S.A.'s Board of Directors endorses the principles concerning equal treatment of all shareholders. In the event of a take-over bid, it is obliged to act in accordance with the requirements of Luxembourg law and in accordance with the applicable principles for good corporate governance.

The Company has been notified of the following significant shareholders who control 5% or more of the voting rights of the Company:

	%[(a)]
Siem Industries Inc.	21.3%
Folketrygdfondet	8.7%

(a) Information is correct as at 31 December 2018.

Information and communications

Subsea 7 S.A.'s Board of Directors concurs with the principles of equal treatment of all shareholders and the Group is committed to reporting financial results and other information on an accurate and timely basis. The Group provides information to the market through quarterly and annual reports, investor and analyst presentations which are available to the media and by making operational and financial information available on Subsea 7's website. Announcements are released through notification to the company disclosure systems of the Oslo Børs and the Luxembourg Commission de Surveillance du Secteur Financier and simultaneously on the Subsea 7 website. As a listed company, the Company complies with the relevant regulations regarding disclosure. Information is only provided in English.

The Company complies in all material respects with the Oslo Børs' Code of Practice for IR, which is available at www.oslobors.no/.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the Consolidated Financial Statements for the year ended 31 December 2018 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, the 2018 Annual Report, Consolidated Financial Statements and Unconsolidated Financial Statements 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.

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

Kristian Siem
Chairman

Jean Cahuzac
CEO and Director

FINANCIAL REVIEW

Management Report for the Subsea 7 group (the Group)

Financial highlights

For the year ended 31 December 2018 revenue was $4.1 billion, 2% higher than the prior year. Adjusted EBITDA was $669 million (2017: $1.0 billion) and Adjusted EBITDA percentage margin was 16%, ten percentage points lower than 2017. The reduced Adjusted EBITDA margin in 2018 reflected lower pricing on projects awarded during the downturn and fewer projects in the final stages of completion, within the SURF and Conventional business unit, and lower activity levels in the Renewables and Heavy Lifting and Life of Field business units. Net operating income was $200 million. The tax charge of $52 million was equivalent to an effective tax rate of 24%. Diluted earnings per share was $0.56 compared to $1.36 in the prior year.

The Group's solid performance in challenging market circumstances in 2018 reflected its strategy to be a global leader in the delivery of offshore projects and services for the evolving energy industry, and create sustainable value by being the industry's partner and employer of choice in delivering the efficient offshore solutions the world needs. Subsea Integration Alliance, the Group's collaboration with OneSubsea, Schlumberger, has delivered positive results with the award of integrated projects offshore Australia and in the Gulf of Mexico, and integrated early engineering awards offshore Senegal and Australia that are expected to progress to the execute phase after final investment decisions are made. The Group remains committed to its long-term relationship with Schlumberger and is encouraged by the success of Subsea Integration Alliance and its integrated technology programmes.

At 31 December 2018 order backlog was $4.9 billion with order intake during the year of $4.0 billion. There was a significant increase in new SURF awards primarily on brownfield developments, which typically have lower investment decision hurdles. Subsea 7's proprietary technology, early engagement and partnership approach were evident in a number of the awards in 2018, with Pipeline Bundles, Electrically Heat Traced Flowlines and integrated SPS-SURF collaboration creating cost effective and differentiated solutions. 2018 saw success for Subsea 7 in a number of new geographies, with awards offshore Taiwan, Senegal, Azerbaijan and the US east coast.

The Group's liquidity and financial position remains strong. At 31 December 2018, the Group held cash and cash equivalents of $765 million compared with $1,109 million at 31 December 2017, had total borrowings of $258 million compared with $283 million at 31 December 2017 and unutilised credit facilities totalling $656 million. In line with its strategy to grow and strengthen its business, the Group invested $418 million in acquisitions and capital expenditure, while maintaining a strong financial and liquidity position. Investment priorities included expanding its early engineering offering, developing efficient technologies and owning the right vessels to meet the needs of current and future projects. The Group's disciplined approach to capital management led to payments to shareholders totalling $297 million in 2018 through a combination of share repurchases and a special dividend.

In light of the Group's solid financial and liquidity position and improved market outlook, the Board of Directors will recommend to the shareholders at the Annual General Meeting on 17 April 2019 that a special dividend of NOK 1.50 per share be paid, equivalent to a total dividend of approximately $55 million.

For the year ended (in $ millions, except Adjusted EBITDA margin, share and per share data)	**2018 31 Dec**	2017 31 Dec
Revenue	**4,074**	3,986
Adjusted EBITDA[(a)] (unaudited)	**669**	1,035
Adjusted EBITDA margin[(a)] (unaudited)	**16%**	26%
Net operating income	**200**	581
Net income	**165**	455
Earnings per share – in $ per share		
Basic	**0.56**	1.39
Diluted	**0.56**	1.36

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Backlog	**4,907**	5,208
Cash and cash equivalents	**765**	1,109
Borrowings	**258**	283

(a) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to page 121 of the Consolidated Financial Statements.

(b) For explanation and a reconciliation of diluted earnings per share refer to Note 11 'Earnings per share' of the Consolidated Financial Statements.

Financial Statements

Revenue
Revenue for the year ended 31 December 2018 was $4.1 billion, an increase of $88 million or 2% compared to 2017. The year-on-year increase was due to higher activity levels, across all regions, in the SURF and Conventional business unit with the exception of Brazil where there were fewer PLSVs in operation in 2018. This was partially offset by lower activity levels in the Renewables and Heavy Lifting and Life of Field business units.

Adjusted EBITDA and Adjusted EBITDA margin for the year ended 31 December 2018 were $669 million and 16% respectively, compared to $1.0 billion and 26% in 2017. The reduced Adjusted EBITDA margin in 2018 reflected lower pricing on projects awarded during the downturn within the SURF and Conventional business unit, and lower activity levels in the Renewables and Heavy Lifting and Life of Field business units.

Net operating income
Net operating income for the year ended 31 December 2018 was $200 million, compared to net operating income of $581 million in 2017. The decrease in net operating income across all business units reflected lower pricing on projects awarded during the downturn within the SURF and Conventional business unit, and lower activity levels in the Life of Field and Renewables and Heavy Lifting business units. Impairment charges of $39 million were recognised in the year in relation to intangible assets and property, plant and equipment compared with impairment charges of $32 million in 2017. Administrative expenses increased by $42 million compared with the prior year; the increase was mainly driven by the consolidation of businesses acquired by the Group and increased tendering activity.

Net income
Net income for the year ended 31 December 2018 was $165 million, compared to net income of $455 million in 2017. The decrease in net income was primarily due to:

- the decrease in net operating income;
- the recognition of a $25 million remeasurement gain on business combinations in 2017

partially offset by:

- a reduction of $48 million in the taxation charge, driven by reduced profitability. The effective tax rate in 2018 was 24% compared to 18% in 2017 reflecting increased withholding tax charges; and
- a net foreign currency gain of $7 million in 2018, recognised within other gains and losses, compared to a net foreign currency loss of $57 million in 2017.

Earnings per share
Diluted earnings per share was $0.56 for the year ended 31 December 2018 compared to diluted earnings per share of $1.36 in 2017, calculated using a weighted average number of shares of 327 million and 338 million respectively.

Allocation of net income
The net income for the year of $165 million (2017: $455 million) was transferred to equity, of which $183 million (2017: $455 million) was recognised in retained earnings attributable to shareholders of the parent company and a net loss of $18 million in non-controlling interests (2017: net loss of $0.2 million).

Business Unit Highlights
For the year ended 31 December 2018

(in $ millions)	**SURF and Conventional**	**Life of Field**	**Renewables and Heavy Lifting**	**Corporate**	**Total**
Selected financial information:					
Revenue	**3,164.3**	**245.2**	**664.0**	**0.3**	**4,073.8**
Net operating income/(loss)	**230.7**	**(11.7)**	**3.9**	**(22.9)**	**200.0**

For the year ended 31 December 2017

(in $ millions)	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Selected financial information:					
Revenue	2,724.8	302.3	958.5	–	3,985.6
Net operating income	450.8	22.7	90.0	17.2	580.7

SURF and Conventional
Revenue for the year ended 31 December 2018 was $3.2 billion, an increase of $440 million or 16% compared to the prior year.

During the year the 4 Decks project, offshore Saudi Arabia, and the Aasta Hansteen project, offshore Norway, were substantially completed. Work progressed on the West Nile Delta Phase Two project, offshore Egypt, the Hasbah project, offshore Saudi Arabia, the Snorre project, offshore Norway, and the Greater Western Flank project, offshore Australia. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $231 million, a decrease of $220 million or 49% compared to 2017. The decrease in net operating income reflected fewer projects in the final stages of completion and underlying margin pressure driven by challenging market conditions. Impairment charges of $26 million were recognised in the year, mainly related to intangible assets, compared with impairment charges in 2017 of $32 million, mainly related to property, plant and equipment.

Life of Field

Revenue for the year was $245 million, a decrease of $57 million or 19% compared to 2017. ROV support activity reflected the reduced number of active drill rigs. Levels of Inspection, Repair and Maintenance (IRM) activity worldwide were consistent with 2017.

Net operating loss was $12 million compared to net operating income of $23 million in 2017. The net operating loss in 2018 reflected lower activity levels and competitive pricing pressure, in addition to impairment charges of $12 million recognised in relation to obsolete ROVs and related equipment.

Renewables and Heavy Lifting

Revenue was $664 million in 2018 compared to $959 million in 2017. The reduction in revenue was primarily due to reduced activity on the Beatrice wind farm project, offshore UK, which neared completion during late 2018. Net operating income was $4 million compared to $90 million in 2017, reflecting lower activity levels, the phasing of profit recognition on the Beatrice wind farm project, and delayed progress on the Borkum II project, offshore Germany, which was adversely impacted by unfavourable weather conditions.

Backlog

At 31 December 2018, order backlog was $4.9 billion, a decrease of $300 million compared to 31 December 2017. Order intake in 2018 was $4.0 billion, and there were unfavourable foreign exchange impacts of approximately $200 million. Major awards in 2018 included the Zinia project, offshore Angola, the PUPP project, offshore Nigeria, the Penguins project, offshore UK, an Inspection, Repair and Maintenance (IRM) frame agreement with Equinor, offshore Norway, a long-term IRM contract, offshore Azerbaijan, and the Yunlin wind farm project, offshore Taiwan.

$4.0 billion of the backlog at 31 December 2018 related to the SURF and Conventional business unit (which included $0.9 billion related to long-term day-rate contracts for PLSV's in Brazil), $0.5 billion related to the Life of Field business unit and $0.4 billion related to the Renewables and Heavy Lifting business unit. $2.8 billion of this backlog is expected to be executed in 2019, $1.5 billion in 2020 and $0.6 billion in 2021 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Balance sheet

Goodwill

At 31 December 2018 goodwill was $751 million, a net increase of $50 million compared with the prior year. During the year goodwill of $74 million was recognised in connection with the acquisition of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH).

Property, plant and equipment

During 2018 additions to property, plant and equipment totalled $223 million (2017: $200 million) and $117 million of property, plant and equipment was recognised in relation to the acquisition of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH) and two vessels, *Seaway Aimery* (formerly *Siem Aimery*) and *Seaway Moxie* (formerly *Siem Moxie*).

Impairment charges totalling $13 million were recognised in the year (2017: $32 million), mainly related to Life of Field operating equipment.

Interest in associates and joint ventures

During the year the Group invested $21 million in associates and joint ventures, mainly related to the acquisition of Xodus.

Borrowings

Total borrowings at 31 December 2018 were $258 million compared with $283 million at 31 December 2017.

Facilities

At 31 December 2018 the Group had facilities of $656 million relating to the Group's multi-currency revolving credit and guarantee facility, all of which remained unutilised.

Share repurchase plan

In line with the Group's objective to give its shareholders an attractive return on their investment, 8,149,699 shares were repurchased during 2018 for a total consideration of $92.9 million. At 31 December 2018 the Group directly held 8,240,024 (2017: 857,887) Treasury shares. At 31 December 2018, the Group had repurchased a cumulative 13,422,355 shares for a total consideration of $149.9 million under the July 2014 programme.

Dividends

A special dividend of NOK 5.00 per share was approved by the shareholders of Subsea 7 S.A. at the Annual General Meeting on 17 April 2018. The total dividend of $204.3 million was paid on 27 April 2018.

Shareholders

The 20 largest shareholders as at 31 December 2018 and their beneficial ownership[(a)] as a percentage of the total fully paid and issued common shares of the Company were:

	%
Siem Industries, Inc.	21.3
Folketrygdfondet	8.7
DNB Asset Management AS	5.0
BlackRock Institutional Trust Company, N.A.	3.4
Trinity Street Asset Management LLP	2.9
KLP Forsikring	2.2
ODIN Forvaltning AS	2.1
The Vanguard Group, Inc.	2.1
Nordea Funds Oy	2.0
Eleva Capital LLP	2.0
Alken Asset Management LLP	2.0
Danske Capital (Norway)	1.9
Storebrand Kapitalforvaltning AS	1.9
Pareto Forvaltning AS	1.9
Robotti & Company Advisors, LLC	1.8
SAFE Investment Company Limited	1.7
Janus Henderson Investors	1.5
Artemis Investment Management LLP	1.3
BlackRock Investment Management (UK) Ltd.	1.1
Alfred Berg Kapitalforvaltning AS	1.0

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

Cash and cash equivalents

Movements in cash and cash equivalents are summarised as follows:

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Cash and cash equivalents at the beginning of the year	**1,109**	1,676
Net cash generated from operating activities	**424**	209
Net cash used in investing activities	**(425)**	(170)
Net cash used in financing activities	**(335)**	(602)
Decrease in restricted cash	**2**	(6)
Effect of exchange rate changes on cash and cash equivalents	**(10)**	2
Cash and cash equivalents at the end of the year	**765**	1,109

Net cash generated from operating activities was $424 million (2017: $209 million) which included a decrease in net operating liabilities of $167 million (2017: $724 million).

Net cash used in investing activities was $425 million compared with $170 million used in 2017. This was mainly attributable to expenditure on property, plant and equipment of $238 million (2017: $147 million) and $161 million related to the acquisition of businesses (net of cash and borrowings acquired) during 2018.

Net cash used in financing activities was $335 million (2017: $602 million), which was mainly driven by the repurchase of shares in the parent company of $93 million and the payment of a dividend to shareholders of the parent company of $204 million (2017: $191 million).

New-build vessel programme

During 2018 construction continued on the Group's new reel lay vessel, *Seven Vega*, and associated equipment. The total cost, excluding capitalised interest, is expected to be below $300 million.

Liquidity

At 31 December 2018, the Group had sufficient liquidity to meet its expected funding requirements for the next 12 months. The Group had cash and cash equivalents of $765 million and unutilised committed credit and guarantee facilities of $656 million, all of which were available for cash drawings. The Group monitors its future business opportunities on a continuous basis and actively reviews its credit and guarantee facilities and its long-term funding requirements.

Cash management constraints

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

Covenant compliance

The Group's credit facilities contain various financial covenants including, but not limited to, a minimum level of tangible net worth, a maximum level of net debt to earnings before interest, taxes, depreciation and amortisation, a maximum level of total financial debt to tangible net worth, a minimum level of cash and cash equivalents and an interest cover covenant. During the year all covenants were met. The Group expects to be able to comply with all financial covenants during 2019.

Going concern

The Consolidated Financial Statements have been prepared under the assumption of going concern. This assumption is based on the level of cash and cash equivalents at the year end, the banking and borrowing facilities in place, the forecast cash flows for the Group and the backlog position at 31 December 2018.

Risk management and internal control

The Group's approach to risk management and internal control is detailed in the Risk Management and Governance sections on pages 18 to 39. Financial risk management is as described in Note 32 'Financial instruments'.

Outlook

Subsea 7 expects the positive trend of increased tendering and award activity to continue in 2019 and anticipates several large greenfield oil and gas projects will be awarded to the market in the year. Large projects require longer offshore campaigns for key enabling vessels and as these come to market, industry utilisation and project pricing should improve. Although oil price volatility remains a risk, most projects that Subsea 7 is currently tendering have breakeven levels well below the projected long-term oil price trends as the benefits of collaboration, innovation and integration contribute to better economic returns. Subsea 7 does not have any new EPCI wind farm projects scheduled for offshore execution in 2019, but new project awards to market are expected to drive increased activity from 2020, as this market continues to grow and becomes more global.

Subsea 7's guidance for the full year 2019 is that revenue is expected to be slightly lower than in 2018, Adjusted EBITDA is expected to be lower and net operating income is expected to be positive. Guidance includes the anticipated impact of the implementation of IFRS 16 'Leases'.

Management Report for Subsea 7 S.A. (the Company)

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

Unconsolidated Financial Statements of Subsea 7 S.A.

The Unconsolidated Financial Statements of Subsea 7 S.A., the ultimate parent company of the Subsea 7 S.A. group, are shown on page 122 to page 133. These were prepared in accordance with Luxembourg's legal and regulatory requirements and using the going concern basis of accounting further described above. The profit for the financial year ended 31 December 2018 was $127.1 million (2017: loss of $14.6 million). The profit was mainly a result of a dividend received during the year from an affiliated undertaking. It is proposed that the profit of $127.1 million for the financial year ended 31 December 2018 be allocated to profit and loss brought forward at 1 January 2019 resulting in a profit brought forward amounting to $112.5 million.

Own shares held

In line with the Company's objective to give its shareholders an attractive return on their investment, 8,149,699 shares were repurchased during 2018 for a total consideration of $92.9 million. At 31 December 2018 the Company directly held 8,240,024 (2017: 857,887) own shares at a carrying amount of $79.7 million.

Risk management, internal control and corporate governance

The Company's approach to risk management, internal control and corporate governance is consistent with that applied to affiliates in the Subsea 7 S.A. group and is detailed in the Risk Management and Governance sections on pages 18 to 39. Financial risk management is as described in Note 32 'Financial instruments'.

Non financial information required by regulation is provided in pages 1 to 39.

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

Kristian Siem	**Jean Cahuzac**
Chairman	CEO and Director

SUBSEA 7 S.A. CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2018

To the shareholders of Subsea 7 S.A.
412F, route d'Esch
L-2086 Luxembourg

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the Consolidated Financial Statements of Subsea 7 S.A. and its subsidiaries (the "Group") included on page 53 to page 120, which comprise the Consolidated Balance Sheet as at 31 December 2018, the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the Consolidated Financial Statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of the audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter:	**Recognition of revenues and income on long-term contracts**
Description of key audit matter:	A significant proportion of the Group's revenues and income are derived from long-term contracts. As detailed in Note 3 of the Consolidated Financial Statements these contracts include complex technical and commercial risks and often specify performance milestones to be achieved throughout the contract period, which can last several years. Due to the contracting nature of the business, revenue recognition involves a significant degree of judgement, with estimates being made to: • assess the total contract costs; • assess the stage of completion of the contract; • assess the proportion of revenues, including variation orders, to recognise in line with contract completion; • forecast the outturn profit margin on each contract incorporating appropriate allowances for technical and commercial risks related to performance milestones yet to be achieved; and • appropriately identify, estimate and provide for onerous contracts. There is a range of acceptable outcomes resulting from these judgements that could lead to different revenue or income being reported in the Consolidated Financial Statements. The Group has detailed procedures and processes in place to manage the commercial, technical and financial aspects of long-term contracts. The processes include the preparation of a Project Monthly Status Report (PMSR), which includes key accounting and forecast information for the relevant contract. The risk of material misstatement is that the accounting for the Group's significant contracts does not accurately reflect the progress made and consequently the contract revenue and margin at the reporting date.

Key audit matter:	**Recognition of revenues and income on long-term contracts**
Our response:	We evaluated and tested the relevant information technology systems and tested the operating effectiveness of internal controls over the accuracy and timing of long-term contract revenue and margin recognised in the Consolidated Financial Statements, including controls over: • the detailed contract reviews (being the PMSR process and controls) performed by Management and reviewed at the project and the Group level that included estimating total costs, stage of completion of contracts, profit margin and evaluating contract profitability; and • the transactional controls that underpin the production of underlying contract related cost balances including the purchase to pay, vessel costs and payroll cycles. For the most significant and judgemental contracts, we: • obtained the PMSR and gained an understanding of the performance and status of the contracts; • corroborated Management's positions through the examination of externally generated evidence, such as customer correspondence; • discussed and understood Management's estimates for total contract costs and forecast costs-to-complete, including taking into account the historical accuracy of such estimates; • discussed and understood Management's estimates in recognising actual or potential variation orders, including taking into account the historical accuracy of such estimates; • tested the reconciliation of cost models to the PMSR; • re-performed the percentage of completion calculation; and • considered whether provisions for onerous contracts reflect the expected contractual position, using the knowledge obtained from other testing. We read the relevant clauses within selected contracts and discussed each with Management to obtain a full understanding of the specific terms and risks, which informed our consideration of whether revenue for these contracts was appropriately recognised. We made enquiries to both Group internal and external legal counsel and considered the positions taken by Management. We assessed the adequacy of the disclosures in Note 3 and Note 5 of the Consolidated Financial Statements in relation to revenue.
Key audit matter:	**Goodwill impairment assessments**
Description of key audit matter:	As detailed in Note 13, the Consolidated Financial Statements include $751.3m of goodwill at 31 December 2018. Goodwill is subject to an annual review for impairment. An estimate of the recoverable amount of the cash-generating units (CGU) to which goodwill is allocated is prepared. The estimated recoverable amount is calculated as the higher of the value-in-use or fair value less costs to dispose. The outcome of the impairment review could vary significantly if different assumptions were applied in the models. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows with many of the key underlying assumptions being impacted by political and economic factors. The key assumptions include: • the future EBITDA assumptions taken from the Group's most recent budgets and plans for the next five years approved by Management ("the Plan"); • the long-term growth rate used beyond the period covered by the Plan; and • the pre-tax discount rate applied to future cash flows. Our audit focused on the risk that the carrying amount of goodwill could be overstated.

Financial Statements

Key audit matter:	**Goodwill impairment assessments**
Our response:	We understood the internal controls for the goodwill impairment process including the determination of assumptions used within the models to assess the recoverable amount of goodwill. We assessed Management’s impairment testing by obtaining the supporting model and assessing the methodology and key assumptions made: • Future EBITDA forecasts – we evaluated Management’s EBITDA forecasts and tested the underlying values used in the calculations by comparing Management’s forecast to the latest Board approved five-year strategic plan. We assessed the actual performance in the year against the prior year budgets to evaluate historical forecasting accuracy; • Long-term growth rate – we compared the rates applied by Management to available externally developed rates; • Pre-tax discount rates – we involved our valuations specialists in our evaluation of the discount rate to consider the appropriateness of the rates used; and • We tested the arithmetical accuracy of the models. As part of our testing of the revenue and EBITDA forecasts, we evaluated the five-year plan process, focusing on expected EBITDA margins and timing of any recovery of the subsea oil and gas market assumptions in the Plan. Given the significance of the terminal value cash flows to the total value-in-use we paid particular attention to the assumptions as regards sustainable EBITDA levels and compared these to expected and historical levels. We re-performed sensitivity analysis around the key assumptions for all CGUs in order to ascertain the extent of change in those assumptions required individually or collectively to result in a further impairment of goodwill. For those CGUs which were most sensitive, we discussed the basis for these cash flows with Management and the Audit Committee. We examined the sensitivity disclosures presented in the Consolidated Financial Statements to consider whether reasonably possible changes to assumptions that could lead to a material impairment had been disclosed. We assessed the adequacy of the disclosures in Note 13 of the Consolidated Financial Statements.
Key audit matter:	**Property, plant and equipment (vessel fleet) impairment assessments**
Description of key audit matter:	As detailed in Note 15, the Consolidated Financial Statements include $4.0 billion for the vessel fleet at 31 December 2018. Property, plant and equipment are subject to an impairment test where indicators of impairment exist. The continued challenging business environment has adversely impacted both current market valuations and expected future utilisation of specific vessels giving rise to indicators of impairment for the vessel fleet. Impairment charges are recognised when necessary to bring the carrying amounts of specific assets to their recoverable amount defined as the higher of value-in-use or fair value less costs to dispose. The process for determining the recoverable amount of the vessel fleet is complex and requires significant Management judgement. The key factors are: • the forecast utilisation of the vessel fleet; • the external broker estimates of market valuation; and • the determination of the cash-generating units used to assess the value-in-use of the vessel. Our audit focused on the risk that the carrying amount of the vessel fleet could be misstated.
Our response:	We evaluated Management’s assessment for indicators of impairment or for reversal of impairments for property, plant and equipment. We understood the internal financial controls for the vessel impairment process including the determination of assumptions used within the models to assess the recoverable amount. We obtained Management’s impairment assessment for owned vessels, which included obtaining broker valuations indicating the market value of the vessels. For vessels where an impairment trigger was identified, we analysed the recoverable amount considering the value-in-use and broker valuations to determine the reasonableness of the carrying amount. We reviewed the external broker vessel valuations obtained by Management for each vessel and assessed their independence, objectivity and competence. For all vessels in the fleet, we evaluated the estimated remaining useful life including understanding any changes (or lack thereof) from the prior year. We evaluated the adequacy of the Group’s disclosures in Note 15 regarding the impairments of property, plant and equipment in the Consolidated Financial Statements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report from pages 41 to 45 and the accompanying Corporate Governance Report from pages 30 to 39 but does not include the Consolidated Financial Statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and of those charged with governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the Consolidated Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the General Meeting of the Shareholders on 17 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is five years.

The Consolidated Management Report from pages 41 to 45 is consistent with the Consolidated Financial Statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Report on pages 30 to 39 is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the Consolidated Financial Statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

Other matter

The Corporate Governance Report includes, when applicable, the information required by article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Ernst & Young

Société anonyme

Cabinet de révision agréé

Olivier Lemaire

Luxembourg, 27 February 2018

For the year ended (in $ millions, except per share data)	Notes	**2018 31 Dec**	2017 31 Dec
Revenue	5	**4,073.8**	3,985.6
Operating expenses	6	**(3,585.3)**	(3,118.4)
Gross profit		**488.5**	867.2
Administrative expenses	6	**(285.7)**	(243.8)
Share of net loss of associates and joint ventures	16	**(2.8)**	(42.7)
Net operating income		**200.0**	580.7
Finance income	8	**16.1**	24.6
Remeasurement gain on business combinations	12	**–**	25.0
Other gains and losses	7	**14.1**	(54.8)
Finance costs	8	**(13.9)**	(21.0)
Income before taxes		**216.3**	554.5
Taxation	9	**(51.8)**	(99.9)
Net income		**164.5**	454.6
Net income attributable to:			
Shareholders of the parent company		**182.5**	454.8
Non-controlling interests	25	**(18.0)**	(0.2)
		164.5	454.6

Earnings per share	Notes	**$ per share**	$ per share
Basic	11	**0.56**	1.39
Diluted[(a)]	11	**0.56**	1.36

(a) For explanation and a reconciliation of diluted earnings per share please refer to Note 11 ‘Earnings per share’ within Notes to the Consolidated Financial Statements.

For the year ended (in $ millions)	Notes	2018 31 Dec	2017 31 Dec
Net income		**164.5**	454.6
Items that may be reclassified to the income statement in subsequent periods:			
Foreign currency translation (losses)/gains		**(96.9)**	124.9
Share of other comprehensive income of associates and joint ventures	16	**–**	0.5
Reclassification adjustment relating to business combinations		**–**	9.0
Tax relating to components of other comprehensive income which may be reclassified	9	**1.1**	(0.5)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement gains on defined benefit pension schemes	35	**3.0**	0.4
Other comprehensive (loss)/income		**(92.8)**	134.3
Total comprehensive income		**71.7**	588.9
Total comprehensive income attributable to:			
Shareholders of the parent company		**90.6**	589.5
Non-controlling interests		**(18.9)**	(0.6)
		71.7	588.9

As at (in $ millions)	Notes	**2018 31 Dec**	2017 31 Dec
Assets			
Non-current assets			
Goodwill	13	**751.3**	700.8
Intangible assets	14	**31.9**	81.0
Property, plant and equipment	15	**4,568.9**	4,688.1
Interest in associates and joint ventures	16	**45.2**	28.7
Advances and receivables	17	**38.4**	35.2
Derivative financial instruments	32	**0.7**	5.8
Other financial assets		**7.2**	5.5
Retirement benefit assets	35	**0.1**	–
Deferred tax assets	9	**28.9**	17.2
		5,472.6	5,562.3
Current assets			
Inventories	18	**32.0**	36.7
Trade and other receivables	19	**607.9**	497.3
Derivative financial instruments	32	**10.5**	36.9
Other financial assets		**15.9**	–
Assets classified as held for sale		**0.4**	0.7
Construction contracts – assets	21	**494.9**	319.1
Other accrued income and prepaid expenses	20	**165.7**	176.3
Restricted cash		**4.1**	6.3
Cash and cash equivalents	22	**764.9**	1,109.1
		2,096.3	2,182.4
Total assets		**7,568.9**	7,744.7
Equity			
Issued share capital	23	**654.7**	654.7
Treasury shares	24	**(95.0)**	(19.7)
Paid in surplus		**2,826.6**	3,033.7
Translation reserve		**(618.4)**	(523.6)
Other reserves		**(26.3)**	(29.3)
Retained earnings		**2,941.8**	2,776.8
Equity attributable to shareholders of the parent company		**5,683.4**	5,892.6
Non-controlling interests	25	**38.4**	48.4
Total equity		**5,721.8**	5,941.0
Liabilities			
Non-current liabilities			
Non-current portion of borrowings	26	**233.6**	258.2
Retirement benefit obligations	35	**30.9**	30.9
Deferred tax liabilities	9	**39.5**	78.4
Provisions	29	**98.7**	67.6
Contingent liability recognised	30	**6.0**	7.8
Derivative financial instruments	32	**3.0**	0.5
Other non-current liabilities	27	**34.6**	49.9
		446.3	493.3
Current liabilities			
Trade and other liabilities	28	**978.1**	892.9
Derivative financial instruments	32	**4.1**	24.3
Current tax liabilities		**103.4**	87.7
Current portion of borrowings	26	**24.6**	24.5
Provisions	29	**117.4**	76.8
Construction contracts – liabilities	21	**167.8**	200.0
Deferred revenue	36	**5.4**	4.2
		1,400.8	1,310.4
Total liabilities		**1,847.1**	1,803.7
Total equity and liabilities		**7,568.9**	7,744.7

For the year ended 31 December 2018

(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)	–	–	–	–	–	182.5	182.5	(18.0)	164.5
Foreign currency translation loss	–	–	–	(95.9)	–	(0.1)	(96.0)	(0.9)	(96.9)
Remeasurement gains on defined benefit pension schemes	–	–	–	–	3.0	–	3.0	–	3.0
Tax relating to components of other comprehensive income	–	–	–	1.1	–	–	1.1	–	1.1
Total comprehensive income/(loss)	**–**	**–**	**–**	**(94.8)**	**3.0**	**182.4**	**90.6**	**(18.9)**	**71.7**
Transactions with owners									
Shares repurchased	–	(92.9)	–	–	–	–	(92.9)	–	(92.9)
Dividends declared	–	–	(204.3)	–	–	–	(204.3)	–	(204.3)
Share-based payments	–	–	4.9	–	–	–	4.9	–	4.9
Vesting of share-based payments	–	–	(7.7)	–	–	7.7	–	–	–
Shares reallocated relating to share-based payments	–	17.6	–	–	–	–	17.6	–	17.6
Loss on reallocation of treasury shares	–	–	–	–	–	(17.2)	(17.2)	–	(17.2)
Reclassification adjustment relating to non-controlling interest	–	–	–	–	–	(8.9)	(8.9)	8.9	–
Total transactions with owners	**–**	**(75.3)**	**(207.1)**	**–**	**–**	**(18.4)**	**(300.8)**	**8.9**	**(291.9)**
Balance at 31 December 2018	**654.7**	**(95.0)**	**2,826.6**	**(618.4)**	**(26.3)**	**2,941.8**	**5,683.4**	**38.4**	**5,721.8**

(in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserve	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**654.7**	**(31.5)**	**3,227.5**	**50.2**	**(689.1)**	**(40.2)**	**2,411.9**	**5,583.5**	**(46.9)**	**5,536.6**
Comprehensive income/(loss)										
Net income/(loss)	–	–	–	–	–	–	454.8	454.8	(0.2)	454.6
Foreign currency translation gain/(loss)	–	–	–	–	125.3	–	–	125.3	(0.4)	124.9
Cash flow hedges										
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	0.5	–	0.5	–	0.5
Remeasurement gains on defined benefit pension schemes	–	–	–	–	–	0.4	–	0.4	–	0.4
Reclassification adjustment due to business combination	–	–	–	–	4.5	4.5	–	9.0	–	9.0
Tax relating to components of other comprehensive income	–	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**129.3**	**5.4**	**454.8**	**589.5**	**(0.6)**	**588.9**
Transactions with owners										
Dividends declared	–	–	(191.1)	–	–	–	–	(191.1)	–	(191.1)
Equity component of convertible bonds	–	–	–	(50.2)	–	–	50.1	(0.1)	–	(0.1)
Addition of non-controlling interest	–	–	–	–	–	–	–	–	0.2	0.2
Share-based payments	–	–	6.0	–	–	–	–	6.0	–	6.0
Vesting of share-based payments	–	–	(8.7)	–	–	–	8.7	–	–	–
Shares reallocated relating to share-based payments	–	11.8	–	–	–	–	–	11.8	–	11.8
Loss on reallocation of treasury shares	–	–	–	–	–	–	(11.3)	(11.3)	–	(11.3)
Reclassification adjustment relating to business combination	–	–	–	–	–	5.5	(5.5)	–	–	–
Reclassification adjustment relating to non-controlling interest	–	–	–	–	36.2	–	(131.9)	(95.7)	95.7	–
Total transactions with owners	**–**	**11.8**	**(193.8)**	**(50.2)**	**36.2**	**5.5**	**(89.9)**	**(280.4)**	**95.9**	**(184.5)**
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**

For the year ended (in $ millions)	Notes	**2018 31 Dec**	2017 31 Dec
Net cash generated from operating activities	37	**423.6**	209.3
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		**11.1**	0.8
Purchases of property, plant and equipment		**(237.9)**	(146.7)
Purchases of intangible assets		**(6.1)**	(7.4)
Loans to third parties		**(4.2)**	(25.0)
Loan repayments from third parties		**–**	25.0
Loan repayments from joint venture		**0.2**	1.1
Loans to joint venture		**(2.4)**	(0.6)
Advances from joint venture		**–**	10.0
Investments in associates and joint ventures		**(1.8)**	–
Loans to non-controlling interests		**–**	(0.2)
Interest received		**16.1**	24.6
Dividends received from associates and joint ventures		**–**	100.7
Acquisition of businesses (net of cash and borrowings acquired)		**(161.3)**	(146.5)
Acquisition of interest in joint venture		**(18.9)**	–
Investment in financial assets		**(20.0)**	(5.5)
Net cash used in investing activities		**(425.2)**	(169.7)
Cash flows from financing activities			
Interest paid		**(13.9)**	(15.9)
Proceeds from borrowings		**–**	301.2
Repayments of borrowings		**(24.6)**	(252.9)
Repayment of derivative financial instrument		**–**	(8.0)
Repurchase of convertible bonds		**–**	(77.3)
Redemption of convertible bonds		**–**	(358.0)
Proceeds from reallocation of common shares		**0.4**	0.5
Cost of share repurchases		**(92.9)**	–
Dividends paid to shareholders of the parent company		**(204.3)**	(191.1)
Dividends paid to non-controlling interests		**–**	(0.5)
Net cash used in financing activities		**(335.3)**	(602.0)
Net decrease in cash and cash equivalents		**(336.9)**	(562.4)
Cash and cash equivalents at beginning of year	22	**1,109.1**	1,676.4
Decrease/(increase) in restricted cash		**2.2**	(6.3)
Effect of foreign exchange rate movements on cash and cash equivalents		**(9.5)**	1.4
Cash and cash equivalents at end of year	22	**764.9**	1,109.1

1. General information

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on the Oslo Børs and as American Depositary Receipts (ADRs) over-the-counter in the US. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg.

Subsea 7 is a global leader in the delivery of offshore projects and services for the evolving energy industry. The 'Group' consists of Subsea 7 S.A. and its subsidiaries at 31 December 2018.

The Group provides products and services required for subsea field development, including project management, design and engineering, procurement, fabrication, survey, installation, and commissioning of production facilities on the seabed and the tie-back of these facilities to fixed or floating platforms or to the shore. Through its Life of Field (formerly named i-Tech Services) business unit, the Group offers a full spectrum of products and capabilities including remotely operated vehicles and tooling services to support exploration and production activities and to deliver full life of field services to its clients. Through its Renewables and Heavy Lifting business unit, the Group offers expertise in 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.

Authorisation of Consolidated Financial Statements

Under Luxembourg law, the Consolidated Financial Statements are approved by the shareholders at the Annual General Meeting. The Consolidated Financial Statements were authorised for issue by the Board of Directors on 27 February 2019.

Presentation of Consolidated Financial Statements

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The Consolidated Financial Statements comply with Article 4 of the EU IAS Regulation.

Amounts in the Consolidated Financial Statements are stated in US Dollars ($), the currency of the primary economic environment in which the Group operates. Group entities whose functional currency is not the US Dollar are consolidated in accordance with the policies set out in Note 3 'Significant accounting policies'.

The Consolidated Financial Statements have been prepared on the going concern basis. This assumption is based on the level of cash and cash equivalents at the year end, the credit facilities in place, the forecast cash flows for the Group and the backlog position at 31 December 2018.

The Consolidated Financial Statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments and balances required to be measured at fair value. The principal accounting policies adopted are consistent with the Consolidated Financial Statements for the year ended 31 December 2017, except where noted in Note 2 'Adoption of new accounting standards'.

2. Adoption of new accounting standards

(i) Effective new accounting standards

The Group adopted the following EU-endorsed International Financial Reporting Standards (IFRS), amendments and interpretations which were effective for the reporting period beginning on 1 January 2018.

IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Considerations'

IFRIC 22 was adopted for the period beginning 1 January 2018 but did not have a significant impact on the reporting of the Group's financial position or performance.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018 and impacts the accounting for financial instruments in three areas: classification and measurement, hedge accounting and impairment.

The Group has applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The adoption of IFRS 9 did not have a significant impact on the Consolidated Financial Statements. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the initial implementation of IFRS 9 have been recognised directly in retained earnings.

Classification and measurement

The Group's financial assets include cash and short-term deposits, trade and other receivables, other receivables, derivative financial instruments and equity investments which are classified as other financial assets. The Group's financial liabilities include trade and other payables, contingent consideration, borrowings and derivative financial instruments.

IFRS 9 replaces the multiple classification and measurement models in IAS 39 with four different measurement models: amortised cost, fair value through profit and loss, fair value through other comprehensive income (with recycling of accumulated gains and losses) and fair value through other comprehensive income (without recycling of accumulated gains and losses).

Classification and subsequent measurement is based on two criteria: the business model under which the Group holds and manages the financial assets; and whether the contractual cash flows resulting from the instrument represent 'solely payments of principal and interest' (the 'SPPI' criterion').

All financial assets are classified at initial recognition and are initially measured at fair value net of transaction costs, with the exception of those classified as fair value through profit or loss (FVPL).

2. Adoption of new accounting standards continued

Classification as amortised cost is applicable where the instruments are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows and the cash flows resulting from the instrument consist solely of principal and interest.

Debt financial assets are subsequently measured at FVPL, amortised cost or fair value through other comprehensive income (FVOCI) depending on classification.

Equity instruments are reported as other financial assets and are subsequently measured at FVPL when not considered to be strategic in nature. Where the Group considers other financial assets to be strategic in nature and is expecting to hold them for the foreseeable future the investments are measured at FVOCI with no recycling of gains or losses to profit or loss on derecognition.

The Group enters into forward foreign currency contracts, in order to manage its foreign currency exposures; these are measured at FVPL. The Group regularly enters into multi-currency contracts from which the cash flows may lead to embedded foreign exchange derivatives in non-financial host contracts, carried at FVPL. The Group reassesses the existence of an embedded derivative if the terms of the host financial instrument change significantly.

The fair values of derivative financial instruments are measured on bid prices for assets held and offer prices for issued liabilities based on values quoted in active markets. Changes in the fair value of derivative financial instruments which do not qualify for hedge accounting are recognised in the Consolidated Income Statement within other gains and losses.

Cash and cash equivalents comprise cash at bank, cash on hand, money market funds, and short-term highly liquid assets with an original maturity of three months or less and readily convertible to known amounts of cash. Utilised revolving credit facilities are included within current borrowings. Cash and cash equivalents are measured at amortised cost.

All financial liabilities are classified at initial recognition and are initially measured at fair value net of transaction costs, with the exception of those classified as FVPL.

Financial liabilities are measured at FVPL when they meet the definition of held for trading or when they are designated as such on initial recognition. Otherwise, financial liabilities are measured at amortised cost.

Impairment of financial assets and construction contract assets

The implementation of IFRS 9 resulted in a change from an incurred loss impairment model to an expected credit loss (ECL) impairment model and required the Group to record allowances for expected credit losses. The expected credit loss model applies to all debt financial assets accounted for in accordance with IFRS 9. The expected credit loss impairment model is also applied to contract assets accounted for under IFRS 15 'Revenue from Contracts with Customers'.

For contract assets and trade and other receivables which do not contain a significant financing component, the Group applies the simplified approach. This approach requires the allowance for expected credit losses to be recognised at an amount equal to lifetime expected credit losses.

For other debt financial assets the allowance for ECLs is calculated on a 12-month basis and is based on the portion of ECLs expected to result from default events possible within 12 months of the reporting date. The Group monitors for significant changes in credit risk and where this is materially different to credit losses calculated on a 12-month basis changes the allowance to reflect the risk of expected default in the contractual lifetime of the financial asset. Unless there is a valid mitigating factor, the Group considers there to have been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group assesses at each reporting date whether any indicators exist that a financial asset or group of financial assets has become credit impaired. Where an asset is considered to be credit impaired a specific allowance is recognised based on the actual cash flows that the Group expects to receive and is determined using historical credit loss experience and forward-looking factors specific to the counterparty and the economic environment. Any shortfall is discounted at the original effective interest rate for the relevant asset.

Except where there are valid mitigating factors, the Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

Hedge accounting

IFRS 9 introduces new principle-based hedge accounting rules aimed at creating improved alignment with risk management practices. IFRS 9 does not change the general principles of how an entity recognises effective hedges but it does result in more economic hedging strategies becoming eligible for hedge accounting. Hedge effectiveness testing will change to being fully prospective and largely qualitative in nature and there will be changes to what qualifies for designation as a hedged item.

Implementation and impact on Consolidated Financial Statements

The Group adopted IFRS 9 with an effective date of 1 January 2018 and as a result has also adopted the consequential amendments to IAS 1 'Presentation of Financial Statements' which requires impairment of financial assets to be presented as a separate line item in the Consolidated Income Statement and the Consolidated Statement of Other Comprehensive Income where material. Where immaterial, impairments of financial assets are reported within 'other expenses'. The Group has adopted consequential amendments to IFRS 7 'Financial Instruments: Disclosures' that are applied to disclosures for 2018 but not applied to comparative information.

On the implementation of IFRS 9, an adjustment of $2.9 million was recognised within retained earnings. At 31 December 2018 aggregated allowances for expected credit losses, related to trade receivables, construction contract assets and unbilled revenue, of $1.6 million were recognised within the Consolidated Balance Sheet. With the exception of the recognition of allowances for expected credit losses there have been no changes to the carrying amounts as a result of the implementation of IFRS 9.

The following table shows the original and revised classification for the Group's financial assets and liabilities at 31 December 2017 (in compliance with IAS 39) and at 1 January 2018 (in compliance with IFRS 9).

in $ millions	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets:				
Other financial assets – financial investments	Available for sale	Designated as FVOCI	5.5	5.5
Restricted cash	Amortised cost	Amortised cost	6.3	6.3
Cash and cash equivalents	Amortised cost	Amortised cost	1,109.1	1,109.1
Derivative financial instruments	Fair value through profit or loss	Mandatorily measured at fair value through profit or loss	42.7	42.7
Net trade receivables	Loans and receivables	Amortised cost	381.8	381.1
Non-current amounts due from associates and joint ventures	Loans and receivables	Amortised cost	6.7	6.7
Current amounts due from associates and joint ventures	Loans and receivables	Amortised cost	6.7	6.7
Other receivables	Loans and receivables	Amortised cost	22.3	22.3
Financial liabilities:				
Derivative financial instruments	Fair value through profit or loss	Mandatorily measured at fair value through profit or loss	(24.8)	(24.8)
Trade payables	Other financial liabilities	Amortised cost	(142.6)	(142.6)
Non-current amounts due to associates and joint ventures	Other financial liabilities	Amortised cost	(1.8)	(1.8)
Current amounts due to associates and joint ventures	Other financial liabilities	Amortised cost	(11.4)	(11.4)
Non-current portion of borrowings	Other financial liabilities	Amortised cost	(24.5)	(24.5)
Current portion of borrowings	Other financial liabilities	Amortised cost	(258.2)	(258.2)
Contingent consideration	Financial liabilities at fair value through profit or loss	Mandatorily measured at fair value through profit or loss	(20.0)	(20.0)
Other payables	Other financial liabilities	Amortised cost	(8.8)	(8.8)

Following the adoption of IFRS 9, the Group continued to measure at fair value all financials assets previously held at fair value in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Trade receivables, amounts due from associates and joint ventures and other receivables previously classified as 'loans and receivables' have been reclassified as 'debt instruments measured at amortised cost' (amortised cost) as they give rise to cash flows which are solely representative of principal and interest and are held under a business model with the aim of collecting contractual cash flows.

Restricted cash and cash equivalents continue to be measured at amortised cost.

Financial investments representing equity interests in non-listed companies, previously held as 'available for sale' financial assets, are intended to be held for the foreseeable future, as a result, at initial implementation the Group has made an irrevocable election to measure financial investments at FVOCI unless fair value cannot be reliably determined. Prior to the adoption of IFRS 9 amounts recognised within other comprehensive income were recycled to the Consolidated Income Statement on the disposal of the investment. Subsequent to the adoption of IFRS 9, amounts recognised within other comprehensive income are never recycled. Any dividends generated are recognised in the Group's Consolidated Income Statement. Prior to the adoption of IFRS 9, no dividend income or impairment losses were recognised.

IFRS 9 amends the accounting requirements for financial liabilities optionally designated at FVPL and now requires the change in fair value attributable to changes in the Group's own credit risk to be recognised directly in other comprehensive income. This requirement did not impact the Group as it had not designated any investments as FVPL. There has been no change to the classification and measurement of the Group's financial liabilities as a result of the adoption of IFRS 9.

At 31 December 2017 the Group had recognised provisions for impairment against the carrying amounts of trade receivables and amounts due from associates and joint ventures of $19.4 million and $13.1 million respectively. These provisions were established as objective evidence of impairment existed at 31 December 2017. At 1 January 2018, upon implementation of IFRS 9, Management performed a review of all financial assets and concluded that, in the case of amounts for which provisions had been recognised, justifications for credit impairment remained and as a result allowances for credit impairment were recognised at 1 January 2018.

At 1 January 2018 the Group recognised allowances for expected credit losses against the carrying amount of trade receivables of $0.7 million. Allowances were measured in line with the IFRS 9 three-stage impairment model.

The Group did not apply hedge accounting for the years ended 31 December 2017 and 31 December 2018 and as a result there has been no impact on the Group's Consolidated Financial Statements due to the implementation of IFRS 9. Should the Group hedge account in the future, the requirements of IFRS 9 are not expected to result in significant changes to the Group's hedge accounting strategy.

2. Adoption of new accounting standards continued

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations and applies to all revenue arising from contracts with customers, unless those contracts are within the scope of other standards. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount which reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The standard requires Management to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model.

The Group adopted IFRS 15 from 1 January 2018, using the modified retrospective approach for contracts not considered complete at the date of initial application. The adoption of IFRS 15 had no significant impact on the Consolidated Income Statement of the Group.

The Group's revenue comprises revenue recognised from contracts with customers for the provision of long-term fixed-price contracts, services under charter agreements, day-rate contracts, reimbursable contracts, cost-plus contracts (and similar contracts), each of which are considered to comprise one performance obligation. The following is a description of the principal activities, by operating segment, from which the Group generates revenue as disclosed in the disaggregated revenue analysis (Note 5 'Segment information').

SURF and Conventional

SURF and Conventional work, which includes Engineering, Procurement, Installation and Commissioning (EPIC) contracts, is generally contracted on a fixed-price basis. The costs and margins realised on such projects vary dependent on a number of factors which may result in reduced margins or, in some cases, losses. The promised goods and services within each contract are considered to be distinct as a bundle and hence one performance obligation under IFRS 15, with revenue being recognised over time. Management has concluded that due to the significant integration, customisation and highly interrelated nature of the work performed under these contracts they form one performance obligation. During a contract, work is performed for the sole benefit of the client who continually monitors progress. Clients may also participate in the vendor selection processes for procured items. During the offshore phase of a contract, the Group typically executes work related to the installation of the client's assets. Due to the nature of the work performed the Group would not have an alternative use for work performed under a contract for a specific client. The transaction price for these types of contracts, where there is an element of variable consideration, is based upon the single most likely outcome. Any additional work, such as scope changes or variation orders, as well as variable consideration, will be included within the total price once the amounts can be reasonably estimated and Management have concluded that their recognition will not result in a significant revenue reversal in a future period.

For EPIC projects, revenue is recognised in each period based upon the advancement of the work-in-progress. The input method used to progressively recognise revenue over time is based upon percentage-of-completion whereby total costs incurred to date are compared with total forecast costs at completion of the contract. This method provides a faithful depiction of the transfer of goods and services to the customer. Any significant upfront procurement which is not customised for the specific project is not included within the actual cost of work performed until such time as the costs incurred are proportionate to the progress in satisfying the performance obligation. Similarly an adjustment to the measurement of progress may be required where significant inefficiencies occur. Typically payment is due from the customer between 30 to 60 days following the issuance of the invoice. The contracts have no significant financing component as the period between when the Group transfers promised goods or services to a customer and when the customer pays for those goods or services will be one year or less. In circumstances where the Group has recognised revenue, but not issued an invoice, the entitlement to consideration is recognised as a construction contract asset. The construction contract asset is transferred to receivables in accordance with the agreed milestone schedule which reflects the unconditional entitlement to payment. Construction contract liabilities arise when progress billings to date exceed project revenues recognised. Assurance type warranty periods commence at the completion of the contractual obligations and typically have a duration of between one to three years. Construction contract asset and liability balances at 31 December 2018 are disclosed within Note 21 'Construction contracts'.

The Group's Pipelay Support Vessel (PLSV) contracts, offshore Brazil, are also included within this category of revenue. PLSV revenue is based upon an agreed schedule of work applied to a range of daily operating activities pre-agreed with the customer. As such these contracts are considered to be distinct as a pattern and hence one performance obligation under the guidelines within IFRS 15. Each day is distinct with the overall promise being the delivery of a series of days that have the same pattern of transfer to the customer. The transaction price for all PLSV contracts is determined by the expected value approach being the number of days multiplied by the expected day-rate. This method of revenue recognition for PLSV contracts provides a faithful depiction of the transfer of goods and services. Typically the value of work completed in any one month corresponds directly with Subsea 7's right to payment. Payment is due from the client approximately 30 days following invoice date. These contracts have no significant financing component. Unbilled revenue related to work completed, which has not been billed to clients, is included within Note 20 'Other accrued income and prepaid expenses'.

Life of Field

The Group's Life of Field business provides Remotely Operated Vehicles (ROVs), survey and inspection, drill rig support and related solutions on a day-rate basis. Projects are contracted on the basis of an agreed schedule of rates applied to a range of daily operating activities. Life of Field contracts are considered to be distinct as a pattern and hence one performance obligation under the guidelines within IFRS 15. Each day is distinct with the overall promise being the delivery of a series of days that have the same pattern of transfer to the customer. The transaction price for all day-rate contracts is determined by the expected value approach being the number of days multiplied by the expected day-rate. This method of revenue recognition for day-rate contracts provides a faithful depiction of the transfer of goods and services. Typically the value of work completed in any one month corresponds directly with Subsea 7's right to payment. Payment is due from the client approximately 15-45 days following the invoice date. These contracts have no significant financing component. Unbilled revenue related to work completed, which has not been billed to clients, is included within Note 20 'Other accrued income and prepaid expenses' at 31 December 2018.

Customers of Life of Field, in certain circumstances, may request the commissioning of bespoke tooling. Revenue in relation to bespoke tooling, which is not significant in relation to the Group's overall revenue, has been concluded to be distinct in its own right. Dependent on the individual contract with the customer, revenue from the sale of this bespoke tooling may be recognised over time or at a point in time when control of the asset is transferred to the customer, generally on delivery.

Renewables and Heavy Lifting

Renewables and Heavy Lifting contracts are generally contracted on a fixed-price basis for the construction and installation of wind farms foundations and inter-array cables, heavy lifting operations or decommissioning. Similar to EPIC contracts, the promised goods and services within Renewables and Heavy Lifting contracts are considered to be distinct as a bundle and hence one performance obligation with revenue being recognised over time. Although the promises within the contract are capable of being distinct, Management have concluded that they are not due to the significant integration, customisation and highly interrelated nature of each contract. The contract work performed is for the sole benefit of the customer who continually monitors progress and the Group would not have an alternative use for work performed under a specific contract. The transaction price for these types of contracts, where there is an element of variable consideration, is based upon the single most likely outcome. Any additional work, such as scope changes or variation orders, as well as variable consideration will be included within the total price once the amounts can be reasonably estimated and Management have concluded that this will not result in a significant revenue reversal in a future period.

For Renewables and Heavy Lifting contracts the input method used to progressively recognise revenue over time is based upon percentage-of-completion whereby total costs incurred to date are compared with total forecast costs at completion of the contract. This method provides a faithful depiction of the transfer of the goods and services to the customer. Any significant upfront procurement which is not customised for the particular project is not included within the actual cost of work performed at each period end. An adjustment to the measure of progress may be required where significant inefficiencies occur which were not reflected in the price of the contract. Payment is due from the client approximately 30-45 days following the issuance of the invoice. These contracts have no significant financing component as the period between when the Group transfers the promised goods or services to the customer and when the customer pays for those goods or services will be one year or less. In circumstances where the Group has recognised revenue, but not issued an invoice, the entitlement to consideration is recognised as a construction contract asset. The construction contract asset is transferred to receivables in accordance with the agreed milestone schedule which reflects the unconditional entitlement to payment. Construction contract liabilities arise when progress billings exceed project revenues. Assurance type warranty periods commence at the completion of the contractual obligations and typically have a duration of between one to three years. Construction contract asset and liability balances at 31 December 2018 are disclosed within Note 21 'Construction contracts'.

Corporate

No revenue is currently recognised within the Group's Corporate segment.

Onerous contract provisions

As a result of the implementation of IFRS 15 the Group has provided an update to previous accounting policies in relation to onerous contract provisions.

All lump-sum onerous contract provisions have been reassessed in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', having previously been recognised in accordance with IAS 11 'Construction Contracts'. The requirements of IAS 37 prescribe that an onerous contract provision must be calculated on a least net cost basis, which includes unavoidable costs only, while comparing these costs to the cost of cancelling a contract and incurring early termination fees. As a result of the reassessment and restatement of lump-sum onerous contract provisions the Group recognised an increase in retained earnings at 1 January 2018 of $3.9 million. In addition the onerous contract provision of $95.0 million, which at 31 December 2017 was included in the Consolidated Balance Sheet within 'Construction contract – liabilities', was remeasured and reallocated to 'Provisions'.

Set out below are the amounts by which each financial statement line item is affected for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have a material impact on other comprehensive income or the Group's operating, investing and financing cash flows. The nature of the adjustments are in relation to the reassessment of the Group's onerous contract provisions. The first column shows amounts recognised under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

(in $ millions, except per share data)	IFRS 15	Previous IFRS	Impact
Consolidated Income Statement:			
Operating expenses	**(3,585.3)**	**(3,581.4)**	**(3.9)**
Net income attributable to shareholders of parent company	**182.5**	**186.4**	**(3.9)**
Diluted earnings per share (in $ per share)	**0.56**	**0.57**	**(0.01)**
Consolidated Balance Sheet:			
Provisions	**(216.1)**	**(109.5)**	**(106.6)**
Construction contracts – liabilities	**(167.8)**	**(274.4)**	**106.6**

Update to Group accounting policies

Following the implementation of IFRS 15 the Group formally established accounting policies in relation to the following significant matters:

Materials received from customers

Materials provided by clients which are 'free-issued' to the Group are not treated as consideration and accordingly are not included within the transaction price. Management concluded that the adoption of IFRS 15 did not have a significant impact due to these items being procured and paid for by the customer with control remaining with the customer.

2. Adoption of new accounting standards continued

Advances received from customers

For certain projects the Group may receive short-term advances from customers which are presented as deferred revenue within the Consolidated Balance Sheet. Advances received from customers include amounts received before the work is performed on day-rate contracts and amounts paid by customers in advance of work commencing on fixed-price contracts. The Group has adopted the practical expedient permitted by IFRS 15, and as such will not adjust the promised amount of the consideration for the effects of a financing component, where the Group expects, at contract inception, that the period between when the customer pays for the service and when the Group transfers that promised service to the customer will be 12 months or less.

Principal versus agent

For certain projects the Group provides procurement services and assumes responsibility for the logistics and handling of procured items. Upon adoption of IFRS 15 Management's assessment of whether a principal or agent relationship exists is based upon whether the Group has the ability to control the goods before they are transferred to the customer. This assessment is performed on a contract-by-contract basis.

Variable consideration

Variable consideration is constrained at contract inception to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Warranty obligations

The Group provides warranties for the repair of defects which are identified during the contract and within a defined period thereafter. As such, most are assurance-type warranties, as defined within IFRS 15, which the Group recognises under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', consistent with its practice prior to the adoption of IFRS 15. The Group does not have any contractual obligations for service-type warranties.

Financing component

The Group has adopted the practical expedient permitted by IFRS 15 and has not adjusted the promised amount of consideration for the effects of a significant financing component where the Group expects, at contract inception, that the period between when the customer pays for the service and when the Group transfers that promised service to the customer will be 12 months or less.

(ii) Accounting standards, amendments and interpretations issued but not yet effective

The following new or amended International Financial Reporting Standards (IFRS), amendments and interpretations may be of significance to the Group but have not yet been fully assessed or early adopted:

IFRS 16 'Leases'

IFRS 16 replaces IAS 17 'Leases' and establishes 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 will 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 on 1 January 2019. The implementation of IFRS 16 will result in differences within the Consolidated Income Statement compared to the treatment under IAS 17 however the impact on net income is expected to be insignificant.

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.

The new requirements result in significant changes to the accounting model applied by lessees, however lessor accounting remains, in substance, unchanged. Where leases were previously accounted for as operating leases there will be significant changes. The single model will require lessees to recognise most leases on the Consolidated Balance Sheet as lease liabilities. A corresponding right-of-use asset will be recognised which represents the contracted right to use the leased asset for a period of time. The cash flow statement for leases will be affected with principal payments being presented within financing activities as opposed to operating activities.

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 has been made for accrued or prepaid lease obligations on the grounds of materiality.

An estimate of the impact of IFRS 16 on the Group's Consolidated Income Statement in 2019 has been performed based on current and forecast lease commitments. It is expected that IFRS 16 will result in a reduction in operating lease expense of between $100 million and $110 million which will be replaced by the recognition of lease amortisation charges of between $90 million and $100 million. In addition, lease finance costs of between $10 million and $15 million will be recognised. Net operating income will be favourably impacted by approximately $10 million and income before tax will be adversely impacted by up to $5 million, with this adverse impact reversing in subsequent years.

These estimates may be significantly impacted by revisions to assumptions regarding leases which remain uncommitted at the date of implementation.

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 million reduction in the right-of-use asset recognised on 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, which are in substance long-term agreements.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

This interpretation provides clarification on accounting for income taxes when tax treatments involve uncertainty which affects the recognition and measurement requirements within IAS 12 'Income Taxes'. The interpretation addresses whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatment by tax authorities, how an entity determines taxable income, tax bases, unutilised tax losses, tax credits and tax rates and how an entity considers changes in facts and circumstances. An entity has to determine whether to consider each uncertain tax treatment separately or together and should follow the approach that more appropriately predicts the resolution of the uncertainty. This interpretation is effective for reporting periods beginning on or after 1 January 2019 but certain transitional reliefs are available. The Group does not expect this interpretation to have a significant impact on its Consolidated Financial Statements.

Annual improvements cycle to IFRS 2015 – 2017

The annual improvements project provides a mechanism for making necessary, but non-urgent amendments to IFRS. None of these amendments are expected to have a significant impact on the Group's financial position or performance.

3. Significant accounting policies

Significant accounting policies for 2018

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of Subsea 7 S.A. ('the Company') and entities controlled by the Company (its subsidiaries). Control is assumed to exist where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. If the Group loses control over a subsidiary it derecognises related assets, liabilities and non-controlling interests and other components of equity, while any resultant gain or loss is recognised in income or loss. Any investment retained is recognised at fair value.

The Group consolidates non-wholly-owned subsidiaries where it can be considered to exercise control over the entity. In some cases this may result in the consolidation of non-wholly owned subsidiaries in which the Group holds less than 50% of the voting rights when there is no history of the other shareholders exercising their votes to outvote the Group.

Subsidiaries

Assets, liabilities, income and expenses of a subsidiary are included in the Consolidated Financial Statements from the date the Group obtains control over the subsidiary until the date the Group ceases to control the subsidiary. Changes in the Group's interest in a subsidiary that do not result in the Group ceasing to control that subsidiary are accounted for as equity transactions.

Where necessary, adjustments are made to the financial statements of subsidiaries to align these with the accounting policies of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Note 39 'Wholly-owned subsidiaries' includes information related to wholly-owned subsidiaries which are included in the Consolidated Financial Statements of the Group.

All subsidiaries are wholly-owned (100%) except those listed in Note 25 'Non-controlling interests'. Non-controlling interests comprise equity interests in subsidiaries which are not attributable, directly or indirectly, to the Company. Non-controlling interests in the net assets or liabilities of subsidiaries are identified separately from the equity attributable to shareholders of the parent company. Non-controlling interests consist of the amount of those interests at the date that the Group obtains control over the subsidiary together with the non-controlling shareholders' share of net income or loss and other comprehensive income or loss since that date.

Interests in associates and joint arrangements

An associate is an entity over which the Group has significant influence, but not control, and which is neither a subsidiary nor a joint venture. Significant influence is defined as the right to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

3. Significant accounting policies continued

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement is classified as either a joint venture or a joint operation depending upon the rights and obligations of the parties to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Interests in associates and joint ventures are accounted for using the equity method. Under this method, the investment is carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any provisions for impairment. The Consolidated Income Statement reflects the Group's share of net income of the associate or joint venture. Losses in excess of the Group's interest (which includes any long-term interests that, in substance, form part of the Group's net investment) are only recognised to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Where there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share in the Consolidated Statement of Comprehensive Income.

Interests in joint operations are accounted for in line with the Group's proportional interest in the joint operations. As a joint operator the Group recognises its interest in: assets (including its share of any assets held jointly); liabilities (including its share of any liabilities incurred jointly); revenue from the sale of its share of output by the joint operation; and expenses (including its share of any expenses incurred jointly).

Dry-dock, mobilisation and decommissioning expenditure

Dry-dock expenditure incurred to maintain a vessel's classification is capitalised in the Consolidated Balance Sheet as a distinct component of the asset and amortised over the period until the next scheduled dry-docking (usually between two-and-a-half years and five years). At the date of the next dry-docking, the previous dry-dock asset and accumulated amortisation is derecognised. All other repair and maintenance costs are recognised in the Consolidated Income Statement as incurred.

Mobilisation expenditure, which consists of expenditure typically incurred prior to the deployment of vessels or equipment on a project, is classified as prepayments and amortised over the life of the project.

A provision is recognised for decommissioning expenditures required to restore a leased vessel to its original or agreed condition, together with a corresponding amount capitalised as property, plant and equipment, when the Group recognises it has a present obligation and a reliable estimate can be made of the amount of the obligation.

Leasing

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense in the Consolidated Income Statement on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are aggregated and recognised on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised on the same basis as the related lease.

Improvements to leased assets are expensed in the Consolidated Income Statement unless they significantly increase the value of the leased asset, under which circumstance this expenditure is capitalised in the Consolidated Balance Sheet and subsequently recognised as an expense in the Consolidated Income Statement on a straight-line basis over the lease term applicable to the leased asset.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. While this is usually the local currency, the US Dollar is designated as the functional currency of certain entities where transactions and cash flows are predominantly in US Dollars.

All transactions in non-functional currencies are initially translated into the functional currency of each entity at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in non-functional currencies are translated to the functional currency at the exchange rate prevailing at the balance sheet date.

All resulting exchange rate differences are recognised in the Consolidated Income Statement. Non-monetary items which are measured at historical cost in a non-functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items which are measured at fair value in a non-functional currency are translated to the functional currency using the exchange rate prevailing at the date when the fair value was determined.

Foreign exchange revaluations of short-term intra-group balances denominated in non-functional currencies are recognised in the Consolidated Income Statement. Revaluations of long-term intra-group loans are recognised in the translation reserve in equity.

The assets and liabilities of operations which have a non-US Dollar functional currency are translated into the Group's reporting currency, US Dollar, at the exchange rate prevailing at the balance sheet date. The exchange rate differences arising on the translation are recognised in the translation reserve in equity. Income and expenditure items are translated at the weighted average exchange rates for the year. On disposal of an entity with a non-US Dollar functional currency the cumulative translation adjustment previously recognised in the translation reserve in equity is reclassified to the Consolidated Income Statement. At 31 December 2018, the exchange rates of the main currencies used throughout the Group, compared to the US Dollar, were as follows:

GBP	0.793
EUR	0.879
NOK	8.718
BRL	3.897

Borrowing costs
Borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. These amounts are calculated using the effective interest rate related to the period of the expenditure. All other borrowing costs are recognised in the Consolidated Income Statement in the period in which they are incurred.

Finance costs
Finance costs or charges, including premiums on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method.

Retirement benefit costs
The Group administers several defined contribution pension plans. Obligations in respect of such plans are charged to the Consolidated Income Statement as they fall due.

In addition, the Group administers a small number of defined benefit pension plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method.

Remeasurements, comprising actuarial gains and losses and the return on plan assets, (excluding net interest), are recognised immediately through the Consolidated Statement of Comprehensive Income in the period in which they occur with a corresponding adjustment in the Consolidated Balance Sheet. Remeasurements are not reclassified to the Consolidated Income Statement in subsequent periods.

Past service costs are recognised in the Consolidated Income Statement on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises portions of the service cost (comprising current and past service costs) gains and losses on curtailments, non-routine settlements and net interest expense or income in the net defined benefit obligation under both operating expenses and administration expenses in the Consolidated Income Statement. The Group is also committed to providing lump-sum bonuses to employees upon retirement in certain countries. These retirement bonuses are unfunded, and are recorded in the Consolidated Balance Sheet at their actuarial valuation.

Taxation
Taxation expense or income recorded in the Consolidated Income Statement or Consolidated Statement of Other Comprehensive Income represents the sum of the current tax and deferred tax charge or credit for the year.

Current tax
Current tax is based on the taxable income for the year, together with any adjustments to tax payable in respect of prior years. Taxable income differs from income before taxes as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other periods and further excludes items that are never taxable or deductible. The tax laws and rates used to compute the amount of current tax payable are those that are enacted or substantively enacted at the balance sheet date. Current tax relating to items recognised directly in equity is recognised in equity and not the Consolidated Statement of Comprehensive Income.

Current tax assets or liabilities are representative of taxes being owed by, or owing to, local tax authorities. In determining current tax assets or liabilities the Group takes into account the impact of uncertain tax positions and whether additional taxes or penalties may be due.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable income, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Such assets or liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets or liabilities in a transaction (other than in a business combination) that does not affect either the taxable income or the accounting income before taxes.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax assets are only recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets are derecognised or reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

3. Significant accounting policies continued

Deferred tax is calculated at the tax rates that are substantively enacted and expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited directly in the Consolidated Statement of Comprehensive Income in which case the deferred tax is also recognised within the Consolidated Statement of Comprehensive Income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current income tax assets and liabilities on a net basis.

Tax contingencies and provisions

A provision for an uncertain tax position is made where the ultimate outcome of a particular tax matter is uncertain. In calculating a provision the Group assesses the probability of the liability arising and, where a reasonable estimate can be made, provides for the liability it considers probable to be required to settle the present obligation. Provisions are based on experience of similar transactions, internal estimates and appropriate external advice.

Business combinations and goodwill

Acquisitions of subsidiaries and businesses, including business combinations completed in stages, are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of cash and other assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Where an acquisition qualifies as a business combination completed in stages, consideration includes the fair value of the Group's equity interest prior to the combination. Any gain or loss associated with the remeasurement of the equity accounted investment to fair value is recognised as a remeasurement gain or loss. Acquisition-related costs are recognised in the Consolidated Income Statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at fair value on the acquisition date, except that:

- deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 'Income Taxes'
- liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19 'Employee Benefits'
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 'Share-based Payments'
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete, to the extent that the amounts can be reasonably calculated. These provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained regarding facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information regarding facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the sum of the consideration and either the amount of any non-controlling interests in the acquiree or the fair value of the acquirer's previously held equity interest in the entity less the net fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration and either the amount of any non-controlling interests in the acquiree or the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in the Consolidated Income Statement. Goodwill is reviewed for impairment at least annually.

Gain on a bargain purchase

A gain arising on a bargain purchase is recognised in the Consolidated Income Statement on the date that control is acquired (the acquisition date). The gain is measured as the net fair value of the identifiable assets acquired and liabilities assumed at the acquisition date less the sum of the consideration.

Intangible assets other than goodwill

Overview

Intangible assets acquired separately are measured at cost at the date of initial acquisition. Following initial recognition, intangible assets are measured at cost less amortisation and impairment charges.

Intangible assets acquired as part of a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets acquired as part of a business combination are measured at acquisition date fair value less amortisation and impairment charges.

Internally generated intangible assets are not capitalised, with the exception of development expenditure which meets the criteria for capitalisation.

Intangible assets with finite lives are amortised over their useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at least annually. Changes in the expected useful lives are accounted for by changing the amortisation period or method, and are treated as changes in accounting estimates. The amortisation expense related to intangible assets with finite lives is recognised in the Consolidated Income Statement in the expense category consistent with the function of the intangible asset.

Research and development costs

Research costs are expensed as incurred. The Group recognises development expenditure as an internally generated intangible asset when the criteria for recognition specified in IAS 38 'Intangible Assets' are met.

Amortisation of the asset over the period of the expected future benefit begins when development is complete and the asset is available for use. The asset is tested for impairment whenever there is an indication that the asset may be impaired.

Property, plant and equipment

Property, plant and equipment acquired separately, including critical spare parts acquired and held for future use, are measured at cost less accumulated depreciation and accumulated impairment charges.

Assets under construction are carried at cost, less any recognised impairment charge. Depreciation of these assets commences when the assets become operational and either commence activities or are deemed available for service.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Vessels	10 to 25 years
Operating equipment	3 to 10 years
Buildings	20 to 25 years
Other assets	3 to 7 years

Land is not depreciated.

Vessels are depreciated to their estimated residual value. Residual values, useful economic lives and methods of depreciation are reviewed at least annually and adjusted if appropriate.

Gains or losses arising on disposal of property, plant and equipment are determined as the difference between any disposal proceeds and the carrying amount of the asset at the date of the transaction. Gains and losses on disposal are recognised in the Consolidated Income Statement in the period in which the asset is disposed.

Tendering costs

Costs incurred in the tendering process are expensed in the Consolidated Income Statement as incurred.

Impairment of non-financial assets

At each reporting date the Group assesses whether there is any indication that non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's fair value less costs of disposal and its value-in-use. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset is allocated. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment charges are recognised in the Consolidated Income Statement in the expense category consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment charges may no longer exist or may have decreased. If such an indication exists the Group makes an estimate of the recoverable amount. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment charge was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment charge been recognised for the asset in prior periods. Any such reversal is recognised in the Consolidated Income Statement. The following criteria are also applied in assessing impairment of specific assets:

Goodwill

An assessment is made at each reporting date as to whether there is an indication of impairment. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the combination.

Each unit or group of units to which the goodwill is allocated initially represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'. If circumstances give rise to a change in the composition of CGUs and a reallocation is justified, goodwill is reallocated based on relative value at the time of the change in composition. Following any reorganisation the CGU cannot be larger than an operating segment determined in accordance with IFRS 8 'Operating Segments'. Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Recoverable amounts are determined based on value-in-use calculations using discounted pre-tax cash flow projections based on risk adjusted financial forecasts approved by the Executive Management Team.

3. Significant accounting policies continued

As cash flow projections are risk adjusted for CGU specific risks, risk premiums are not applied to the discount rate which is applied to all CGUs. The discount rate applied to the cash flow projections is a pre-tax rate and reflects current market assessments of the time value of money, risks specific to the asset and a normalised capital structure for the industry. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment charge is recognised in the Consolidated Income Statement.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative values of the operation disposed and the portion of the CGU retained.

Associates and joint ventures

At each reporting date the Group determines whether there is any objective evidence that the investment in an associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the estimated fair value of the associate or joint venture and its carrying amount. The resultant impairment charge is recognised in the Consolidated Income Statement.

Inventories

Inventories comprise consumables, materials and non-critical spares and are valued at the lower of cost and net realisable value.

Treasury shares

Treasury shares are the Group’s own equity instruments which are repurchased and deducted from equity at cost. Gains or losses realised or incurred on the purchase, sale, issue or cancellation of the Group’s own equity instruments are recognised within equity. No gains or losses are recognised in the Consolidated Income Statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past transaction or event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised represents the best estimate of the expenditure expected to be required to settle the present obligation. Estimates are determined by the judgement of Management supplemented by the experience of similar transactions, and, in some cases, advice from independent experts. Contingent liabilities are disclosed in Note 30 ‘Commitments and contingent liabilities’ to the Consolidated Financial Statements, but not recognised until they meet the criteria for recognition as a provision. Where the Group is virtually certain that some or all of a provision will be reimbursed, that reimbursement is recognised as a separate asset. The expense relating to any provision is reflected in the Consolidated Income Statement at an amount reflective of the risks specific to the liability. Where the provision is discounted, any increase in the provision due to the passage of time is recognised as a finance cost in the Group’s Consolidated Income Statement.

The following criteria are applied for the recognition and measurement of significant classes of provision:

Onerous contracts

The Group recognises provisions for onerous contracts once the underlying event or conditions leading to the contract becoming onerous is probable and a reliable estimate can be made. Provisions are measured at the best estimate of unavoidable costs under the contract which reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties resulting from failure to fulfil the contract.

Legal claims

In the ordinary course of business, the Group is subject to various claims, litigation and complaints. An associated provision is recognised if it is probable that a liability has been incurred and the amount can be reliably estimated.

Contingent consideration

The Group recognises a provision for contingent consideration resulting from earn-out arrangements as part of a business combination. The amount and timing of contingent consideration is often uncertain and is payable based on the achievement of specific targets and milestones. The liability is initially measured at its acquisition date fair value, determined using the discounted cash flows method and unobservable inputs and is remeasured at each reporting date. Changes in fair value are recognised in the Consolidated Income Statement.

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share options and conditional awards of shares based on the performance of the Group. Equity-settled transactions with employees are measured at fair value at the date on which they are granted. The fair value is determined using a Monte Carlo simulation model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each balance sheet date, until the vesting date, reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The cumulative expense also includes the estimated future charge to be borne by the Group in respect of social security contributions, based on the intrinsic unrealised value of the awards using the share price at the balance sheet date. The net income or expense for a period represents the difference in cumulative expense recognised at the beginning and end of that period.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where an equity-settled award is forfeited, due to vesting conditions being unable to be met, the cumulative expense previously recognised is reversed with a credit recognised in the Consolidated Income Statement. If a new award is substituted for the cancelled award, the new award is measured at fair value at the date on which they are granted.

Earnings per share

Earnings per share is calculated using the weighted average number of common shares and common share equivalents outstanding during each period excluding treasury shares. The potentially dilutive effect of outstanding share options and performance shares is reflected as share dilution in the computation of diluted earnings per share. Convertible bonds, excluding those repurchased and held by the Group, are included in the diluted earnings per share calculation if the effect is dilutive, regardless of whether the conversion price has been met.

Significant accounting policies for 2017

The following accounting policies have been provided to assist with the understanding of comparative financial information for the year ended 31 December 2017. These accounting policies, relating to financial instruments and revenue, have been replaced by IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' as disclosed in Note 2 'Adoption of new accounting standards'.

Revenue recognition – relevant for 2017 comparative financial information only

For the year ended 31 December 2017, revenue was measured at the fair value of the consideration received or receivable and represented amounts receivable for goods and services provided by the Group in the normal course of business, net of discounts and sales-related taxes.

Service revenue

Revenue received for the provision of services under charter agreements, day-rate contracts, reimbursable contracts, cost-plus contracts and similar contracts was recognised on the accrual basis as services were provided.

Long-term construction contracts – general

The Group accounted for long-term construction contracts, including engineering, procurement, installation and commissioning (EPIC) contracts, using the percentage-of-completion method. Revenue and gross profit were recognised in each period based upon the advancement of the work-in-progress. Provisions for anticipated losses were made in full in the period in which they become known.

If the stage of completion was insufficient to enable a reliable estimate of gross profit to be established (typically when less than 5% completion has been achieved), revenue was recognised to the extent of contract costs incurred where it was probable that these costs would be recoverable.

A significant portion of the Group's revenue was invoiced under fixed-price contracts. However, due to the nature of the services performed, variation orders and claims were commonly invoiced to clients in the normal course of business.

Additional contract revenue arising from variation orders was recognised when it was probable that the client would approve the variation and the amount of revenue arising from the variation could be reliably measured. A claim is an amount that may be collected as reimbursement for costs not included in the contract price. A claim may arise from delays caused by clients, errors in specifications or design, and disputed variations in contract work. Additional contract revenue resulting from claims was recognised only when negotiations had reached an advanced stage such that it was virtually certain that the client would accept the claim and that the amount could be measured reliably.

During the course of multi-year projects accounting estimates may change. The effects of such changes were accounted for in the period of change and the cumulative income recognised to date was adjusted to reflect the latest estimates. Such revisions to estimates did not result in restating amounts in previous periods.

Long-term construction contracts were presented in the Consolidated Balance Sheet as 'Construction contracts – assets' when project revenues plus any full-life project onerous contract provisions recognised exceed progress billings, or as 'Construction contracts – liabilities' when progress billings exceed project revenues plus any full-life project onerous contract provision recognised.

Long-term construction contracts – SURF and Conventional contracts

The Group's SURF and Conventional EPIC contracts were accounted for by applying the cost-to-cost percentage-of-completion method based on the ratio of costs incurred to date to total estimated costs at completion. The application of this cost based percentage-of-completion method was considered to most accurately represent the advancement of work-in-progress for SURF and Conventional contracts where the phasing of expenditure was closely linked to the stage of completion of contract activity. Contract revenues and total cost estimates at completion were reviewed by Management on a monthly basis. This percentage cost progression was then applied to full-project forecasts of revenue to determine revenue recognised in a particular period.

3. Significant accounting policies continued

Long-term construction contracts – Renewable contracts

In certain specific cases the Group's renewable engineering, procurement, construction and installation (EPCI) contracts were accounted for by applying the physical progression percentage-of-completion method which reliably measured work performed and the associated recognition of revenue and profit for these types of contract. In these particular projects the application of the cost-to-cost method rather than physical progression method of percentage-of-completion may accelerate revenue and profit recognition due to the typically high proportion of procurement costs, within total project costs. Advancement against individual work scopes and contractual performance obligations were reviewed by Management on a monthly basis.

Financial instruments – relevant for 2017 comparative financial information only

For the year ended 31 December 2017, the Group's financial assets included cash and short-term deposits, trade and other receivables, loans and other receivables and derivative financial instruments and equity investments.

The Group's financial liabilities included trade and other payables, contingent consideration, borrowings and derivative financial instruments.

All financial instruments were initially measured at fair value net of transaction costs, with the exception of those classified as fair value through profit or loss and all derivative financial instruments which were measured at fair value.

Derivative financial instruments

The Group entered into both derivative financial instruments and non-derivative financial instruments in order to manage its foreign currency exposures. The principal derivative financial instruments used were forward foreign currency contracts.

All derivative transactions were undertaken and maintained in order to manage the foreign currency and interest rate risks associated with the Group's underlying business activities and the financing of those activities.

Derivative financial instruments embedded in other financial instruments or other host contracts were treated as separate derivative financial instruments when their risks and characteristics were not closely related to those of the host contracts and the host contracts were not carried at fair value. Unrealised gains or losses were reported in the Consolidated Income Statement and were included within derivative financial instruments in the Consolidated Balance Sheet. The Group would only reassess the existence of an embedded derivative if the terms of the host financial instrument change significantly.

After initial recognition the fair values of derivative financial instruments were measured on bid prices for assets held and offer prices for issued liabilities based on values quoted in active markets. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting (including embedded derivative financial instruments) were recognised in the Consolidated Income Statement within other gains and losses.

Financial investments

The Group's non-current financial investments comprised strategic shareholdings in technology companies. These investments were held at cost, deemed an appropriate estimate of fair value, due to the uncertainty over technical milestones and the wide range of possible fair value measurements. These investments were reviewed for indicators of impairment at each reporting date.

Cash and cash equivalents

Cash and cash equivalents in the Consolidated Balance Sheet comprised cash at bank, cash on hand, money market funds, and short-term highly liquid assets with an original maturity of three months or less and readily convertible to known amounts of cash. Utilised revolving credit facilities were included within current borrowings.

Trade receivables and other receivables

The Group assessed at each reporting date whether any indicators existed that a financial asset or group of financial assets were impaired.

In relation to trade receivables, a provision for impairment was made when there was objective evidence that the Group would not be able to collect all, or part, of the amounts due. Impaired trade receivables were derecognised when they were assessed as uncollectible.

Loans receivable and other receivables were carried at amortised cost using the effective interest rate method. Interest income, together with gains and losses when the loans and receivables were derecognised or impaired, was recognised in the Consolidated Income Statement.

The fair value of the instrument, which was generally the net proceeds less the fair value of the liability, net of transaction costs, was allocated to the conversion option which was recognised and included in the equity reserve within shareholders' equity. The carrying amount of the conversion option was not remeasured.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in Note 3 'Significant accounting policies', Management is required to make judgements, estimates and assumptions regarding the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that Management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively in the period in which the estimate is revised.

Revenue recognition

The Group's accounting policies under IFRS 15 'Revenue from Contracts with Customers' are detailed in Note 2 'Adoption of new accounting standards'.

Revenue recognition on long-term construction contracts and renewables contracts

The Group accounts for long-term construction contracts for both engineering, procurement, installation and commissioning (EPIC) projects and renewables and heavy lifting projects using the percentage-of-completion method, which is standard practice in the industry. Contract revenues, total cost estimates and estimates of physical progression are reviewed by Management on a monthly basis. Any adjustments made as a result of these reviews are reflected in contract revenues or contract costs in the reporting period, based on the percentage-of-completion methods.

To the extent that these adjustments result in a reduction or elimination of previously reported contract revenues or costs, a charge or credit is recognised in the Consolidated Income Statement; amounts in prior periods are not restated. Such a charge or credit may be significant depending on the size of the project, the stage of project completion and the size of the adjustment. Additional information that enhances and refines the estimating process is often obtained after the balance sheet date but before the issuance of the Consolidated Financial Statements, which may result in an adjustment to the Consolidated Financial Statements based on events, favourable or unfavourable, occurring after the balance sheet date. If a condition arises after the balance sheet date which is of a non-adjusting nature, the results recognised in the Consolidated Financial Statements are not adjusted.

The percentage-of-completion method requires Management to make reliable estimates of physical progression, costs incurred, full project contract costs and full project contract revenues. The Group's Project Monthly Status Reports (PMSRs) evaluate the likely outcome of each individual project for the purpose of making reliable estimates of cost, revenue and progression, measured either by cost or physical progression. A key element of the PMSRs is the estimate of contingency. Contingency is an estimate of the costs required to address the potential future outcome of identified project risks. The Group uses a systematic approach in estimating contingency based on project size. This approach utilises a project specific risk register in order to identify and assess the likelihood and impact of these risks. The most significant risks and uncertainties in the Group's projects typically relate to the offshore phase of operations. Identified risks that materialise may result in increased costs. Contingency associated with identified risks will be removed from the full project cost estimate throughout the remaining life of the project if the identified risks do not materialise.

Revenue recognition on variation orders and claims

A significant portion of the Group's revenue is billed under fixed-price contracts. Due to the nature of the services performed, variation orders and claims are common.

A variation order is an instruction by the client for a change in the scope of the work to be performed under the contract which may lead to an increase or a decrease in contract revenue based on changes in the specifications or design of an asset and changes in the duration of the contract.

A claim is an amount that may be collected as reimbursement for costs not included in the contract price. A claim may arise from delays caused by clients, errors in specifications or design, and disputed variations in contract work. The measurement of revenue arising from claims is subject to a high level of uncertainty and is dependent on the outcome of negotiations.

Recognition of revenue on variation orders and claims is governed by the Group's revenue recognition approval policy.

Allocation of goodwill to cash-generating units (CGUs)

During 2018, the Group completed a business combination which resulted in the recognition of goodwill. Management used their judgement in the identification of the appropriate CGUs for the monitoring of goodwill. Goodwill recognised on the acquisition of Seaway Offshore Cables GmbH, its UK subsidiary, the inter-array vessel, *Seaway Aimery*, and the support vessel, *Seaway Moxie,* has been allocated to the Renewables and Heavy Lifting CGU.

Goodwill carrying amount

Goodwill is reviewed at least annually to assess whether there is objective evidence to indicate that the carrying amount of goodwill is impaired at a CGU level. The impairment review is performed on a value-in-use basis which requires the estimation of future net operating cash flows. Further details relating to the impairment review can be found in Note 13 'Goodwill'.

Property, plant and equipment

Property, plant and equipment is recorded at cost and depreciation is recorded on a straight-line basis over the useful lives of the assets. Management uses its experience to estimate the remaining useful economic life and residual value of an asset.

A review for indicators of impairment is performed at each reporting date. When events or changes in circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable, a review for impairment is carried out by Management. Where the value-in-use method is used to determine the recoverable amount of an asset, Management uses its judgement in determining the CGU to which the asset belongs, or whether the asset can be considered a CGU in its own right. The level of aggregation of assets is a significant assumption made by Management and includes consideration of which assets generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management has determined that vessels are not CGUs individually as they do not generate cash inflows independently of other Group assets. Once the CGU has been determined Management uses its judgement in determining the value-in-use of the CGU as detailed in Note 13 'Goodwill'. Where an asset is considered a CGU in its own right Management uses its judgement to estimate future asset utilisation, profitability, remaining life and the discount rate used.

4. Critical accounting judgements and key sources of estimation uncertainty continued

Recognition of provisions and disclosure of contingent liabilities

In the ordinary course of business, the Group becomes involved in contract disputes from time to time due to the nature of its activities as a contracting business involved in multiple long-term projects at any given time. The Group recognises provisions to cover the expected risk of loss to the extent that negative outcomes are likely and reliable estimates can be made. The final outcomes of these contract disputes are subject to uncertainties as to whether or not they develop into a formal legal action and therefore the resulting liabilities may exceed the liability anticipated by Management.

Furthermore, the Group may be involved in legal proceedings from time to time; these proceedings are incidental to the ordinary conduct of its business. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is reasonably possible that the final resolution of any litigation could require the Group to incur additional expenditures in excess of provisions that it may have previously recognised.

Management uses its judgement in determining whether the Group should recognise a provision or disclose a contingent liability. These judgements include whether the Group has a present obligation and the probability that an outflow of economic resource is required to settle the obligation. Management may also use its judgement to determine the amount of the obligation or contingent liability. Management uses external advisers to assist with some of these judgements. Further details relating to provisions and contingent liabilities are shown in Note 29 'Provisions' and Note 30 'Commitments and contingent liabilities'.

Taxation

The Group is subject to taxation in numerous jurisdictions and significant judgement is required in calculating the consolidated tax provision. There are transactions for which the ultimate tax determination is uncertain and for which the Group makes provisions based on an assessment of internal estimates and appropriate external advice, including decisions regarding whether to recognise deferred tax assets in respect of tax losses. Each year Management completes a detailed review of uncertain tax positions across the Group and makes provisions based on the probability of the liability arising. Where the final tax outcome of these matters differs from the amounts that were initially recorded, the difference will impact the tax charge in the period in which the outcome is determined. Details of key judgements and other issues considered are set out in Note 9 'Taxation'.

Measurement of other intangibles acquired on business combinations

As part of the acquisition accounting for business combinations completed during the year, it was necessary for Management to use its judgement to estimate the fair value of previously unrecognised intangible assets. Intangible assets recognised by the Group following business combinations included third party unexecuted contractual backlog. Management used its judgement to determine the fair value and the appropriate amortisation periods for intangible assets using income-based valuation approaches. Management used external advisers to assist with some of these judgements. Further details relating to assets acquired as a result of business combinations are included in Note 12 'Business combinations'.

Measurement of contingent consideration in business combinations

As a result of business combinations the Group has recognised contingent consideration being additional cash consideration payable to previous owners should specific targets be achieved in future periods. At the acquisition date Management applied judgement to provisionally estimate the fair value of this consideration using the discounted cash flow method and certain assumptions related to expected future activity levels.

Changes to the expected levels of contingent consideration resulting from adjusting events during the 12-month measurement period are reflected in the amounts recognised as part of the accounting for the business combination. Changes resulting from non-adjusting events and all changes to the expected levels of contingent consideration arising after the end of the measurement period are reflected within other gains and losses in the Group's Consolidated Income Statement.

5. Segment information

For management and reporting purposes, the Group is organised into four business units: SURF and Conventional, Life of Field (formerly named i-Tech Services), 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, construction and installation 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 and impairment charges, related to vessels, equipment and offshore personnel deployed in SURF and Conventional activities.

Life of Field

The Life of Field (formerly named i-Tech Services) 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 and impairment charges, related to 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 and impairment charges, related to vessels, equipment and offshore personnel deployed on Renewables and Heavy Lifting activities. The results of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH) and its UK subsidiary are included within this business unit from the date of acquisition.

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.

The accounting policies of the business units are the same as the Group's accounting policies, which are described in Note 3 'Significant accounting policies'.

Allocations of costs also occur between segments based on the physical location of personnel. The Chief Operating Decision Maker (CODM) is the Chief Executive Officer of the Group. The CODM is assisted by the other members of the Executive Management Team. Neither total assets nor total liabilities by operational segment are regularly provided to the CODM and consequently no such disclosure is shown. Summarised financial information, including the disaggregation of the Group's revenue from contracts with customers, concerning each operating segment is as follows:

For the year ended 31 December 2018

(in $ millions)	**SURF and Conventional**	**Life of Field**	**Renewables and Heavy Lifting**	**Corporate**	**Total**
Selected financial information:					
Revenue[(a)/(b)/(c)]					
Lump-sum projects	**2,527.7**	**2.4**	**663.4**	**–**	**3,193.5**
Day-rate projects	**636.6**	**242.8**	**0.6**	**0.3**	**880.3**
	3,164.3	**245.2**	**664.0**	**0.3**	**4,073.8**
Operating expenses	**(2,781.0)**	**(245.2)**	**(625.2)**	**66.1**	**(3,585.3)**
Share of net (loss)/income of associates and joint ventures	**(5.1)**	**1.7**	**–**	**0.6**	**(2.8)**
Depreciation, mobilisation and amortisation expenses	**(333.8)**	**(36.1)**	**(55.4)**	**(4.7)**	**(430.0)**
Impairment of property, plant and equipment and intangible assets	**(26.3)**	**(12.4)**	**–**	**–**	**(38.7)**
Reconciliation of net operating income to income before taxes:					
Net operating income/(loss)	**230.7**	**(11.7)**	**3.9**	**(22.9)**	**200.0**
Finance income					**16.1**
Other gains and losses					**14.1**
Finance costs					**(13.9)**
Income before taxes					**216.3**

(a) Revenue represents only external revenues for each segment. An analysis of inter-segment revenues has not been included as this information is not provided to the CODM.
(b) Four clients in the year individually accounted for more than 10% of the Group's revenue. The revenue from these clients, attributable to SURF and Conventional, Life of Field and Renewables and Heavy Lifting operating segments, were as follows; Client A $733.5 million (2017: $845.5million), Client B $501.4 million (2017: $624.8 million), Client C $484.3 million (2017: $616.8 million) and Client D $387.6 million (2017: no Client D over 10%).
(c) Revenue from contracts with customers recognised over time as defined by IFRS 15.

For the year ended 31 December 2017

(in $ millions)	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Selected financial information:					
Revenue[(a)/(b)]	2,724.8	302.3	958.5	–	3,985.6
Operating expenses	(2,095.5)	(270.7)	(837.5)	85.3	(3,118.4)
Share of net income of associates and joint ventures	(38.0)	2.7	(7.4)	–	(42.7)
Depreciation, mobilisation and amortisation expenses	(335.5)	(37.6)	(43.7)	(5.5)	(422.3)
Impairment of property, plant and equipment and intangible assets	(31.2)	(0.3)	–	–	(31.5)
Reconciliation of net operating income to income before taxes:					
Net operating income	450.8	22.7	90.0	17.2	580.7
Finance income					24.6
Remeasurement gain on business combination					25.0
Other gains and losses					(54.8)
Finance costs					(21.0)
Income before taxes					554.5

(a) Revenue represents only external revenues for each segment. An analysis of inter-segment revenues has not been included as this information is not provided to the CODM.
(b) Revenue recognised in accordance with IAS 11 'Construction Contracts' or IAS 18 'Revenue' as appropriate.

5. Segment information continued

Geographic information

Revenues from external clients

Based on the country of registered office of the Group's subsidiary or branch, revenues are split as follows:

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
United Kingdom	**1,471.6**	2,159.3
Norway	**467.1**	327.5
Egypt	**341.5**	410.5
United States of America	**289.2**	290.6
Saudi Arabia	**286.6**	36.8
Singapore	**255.0**	127.8
Cyprus	**216.4**	111.9
Brazil	**205.8**	272.0
Nigeria	**160.9**	–
Australia	**136.0**	98.6
Germany	**59.8**	–
Mexico	**46.8**	26.0
Azerbaijan	**45.9**	–
Angola	**40.3**	62.3
Ghana	**33.0**	1.0
Other countries	**17.9**	61.3
	4,073.8	3,985.6

Non-current assets

Based on the country of registered office of the Group's subsidiary or branch, non-current assets excluding goodwill, derivative financial instruments, retirement benefit assets and deferred tax assets are located in the following countries:

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
United Kingdom	**2,679.9**	2,680.2
Isle of Man	**809.7**	928.8
Cyprus	**559.6**	590.8
Norway	**356.0**	374.0
Angola	**81.1**	99.0
Egypt	**66.1**	–
Brazil	**45.6**	59.3
Other countries	**93.6**	106.4
	4,691.6	4,838.5

6. Net operating income

Net operating income includes:

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Research and development costs	**19.4**	17.3
Employee benefits	**976.4**	872.6
Depreciation of property, plant and equipment (Note 15)	**389.6**	388.5
Amortisation of intangible assets (Note 14)	**30.8**	26.4
Mobilisation costs	**9.6**	7.4
Impairment of intangible assets (Note 14)	**25.3**	–
Impairment of property, plant and equipment (Note 15)	**13.4**	31.5
Net allowance for expected credit losses for financial assets (Note 32)	**0.1**	–
Net allowance for expected credit losses on construction contract assets (Note 21)	**(1.3)**	–
Net credit impairment expense for financial assets (Note 32)	**(0.6)**	–
Auditor's remuneration	**2.4**	2.1

The total fees chargeable to the Group by the principal auditing firm Ernst & Young S.A. and other member firms of Ernst & Young Global Limited were:

For the year ended (in $ millions)	2018 31 Dec	2017 31 Dec
Audit fees	**2.1**	2.0
Tax fees	**0.3**	0.1
	2.4	2.1

Audit fees constitute charges incurred for professional services rendered by the Group's principal auditor and member firms. Charges were incurred for the audit of the consolidated and statutory financial statements of Subsea 7 S.A. and certain subsidiaries. Fees were primarily incurred in connection with the financial year ended 31 December 2018 but include final settlement of charges associated with the financial year ended 31 December 2017.

Tax fees constitute charges incurred for professional services rendered by the Group's principal auditors and their member firms relating to the provision of tax advice and tax compliance services for work undertaken during the year ended 31 December 2018. Fees were primarily incurred in connection with the financial year ended 31 December 2018 but include final settlement of charges associated with the financial year ended 31 December 2017.

The Group's Audit Committee policy requires pre-approval of audit and non-audit services prior to the appointment of the providers of professional services together with highlighting excluded services which the Group's principal auditor cannot provide. The Audit Committee delegates approval to the Chief Financial Officer based on predetermined limits. The Audit Committee pre-approved or, in cases where pre-approval was delegated, ratified all audit and non-audit services provided to Subsea 7 S.A. and its subsidiaries during the year ended 31 December 2018.

Reconciliation of operating expenses and administrative expenses by nature

	31 Dec 2018			31 Dec 2017		
For the year ended (in $ millions)	**Operating expenses**	**Administration expenses**	**Total expenses**	Operating expenses	Administration expenses	Total expenses
Employee benefits	**831.5**	**144.9**	**976.4**	726.8	145.8	872.6
Depreciation, amortisation and mobilisation	**408.7**	**21.3**	**430.0**	401.1	21.2	422.3
Impairment of intangible assets	**25.3**	**–**	**25.3**	–	–	–
Impairment of property, plant and equipment	**13.4**	**–**	**13.4**	31.5	–	31.5
Net allowance for expected credit losses for financial assets	**0.1**	**–**	**0.1**	–	–	–
Net allowance for expected credit losses for construction contract assets	**(1.3)**	**–**	**(1.3)**	–	–	–
Net credit impairment expense for financial assets	**(0.6)**	**–**	**(0.6)**	–	–	–
Other expenses	**2,308.2**	**119.5**	**2,427.7**	1,961.7	76.8	2,038.5
Total	**3,585.3**	**285.7**	**3,871.0**	3,121.1	243.8	3,364.9

7. Other gains and losses

For the year ended (in $ millions)	2018 31 Dec	2017 31 Dec
Gains on disposal of property, plant and equipment	**5.8**	0.5
Fair value (losses)/gains on derivative financial instruments mandatorily measured at fair value through profit or loss	**(0.5)**	0.2
Fair value losses on other financial assets measured at fair value through profit or loss	**(4.0)**	–
Net loss on repurchase of convertible bonds	**–**	(0.1)
Net loss on settlement of borrowings	**–**	(2.3)
Net gains on business combinations post measurement periods	**6.2**	–
Net bargain purchase gain on business combinations	**–**	3.4
Net foreign currency exchange gains/(losses)	**6.6**	(56.5)
Total	**14.1**	(54.8)

Net foreign currency exchange gains/(losses) include fair value gains/(losses) on foreign exchange derivatives and embedded derivatives.

Fair value losses on other financial assets measured at fair value through profit or loss comprise the remeasurement of investments in quoted securities.

8. Finance income and costs

For the year ended (in $ millions)	2018 31 Dec	2017 31 Dec
Interest on financial assets measured at amortised cost	**16.1**	24.6
Total finance income	**16.1**	24.6

For the year ended (in $ millions)	2018 31 Dec	2017 31 Dec
Interest and fees on financial liabilities measured at amortised cost	**14.1**	13.0
Interest on convertible bonds	**–**	11.7
Total borrowing costs	**14.1**	24.7
Less: amounts capitalised and included in the cost of qualifying assets	**(3.4)**	(4.0)
	10.7	20.7
Interest on tax liabilities	**3.2**	0.3
Total finance costs	**13.9**	21.0

Borrowing costs included in the cost of qualifying assets during the year was calculated by applying to expenditure on such assets at an average capitalisation rate of 3.8% dependent on the funding source (2017: 3.6%).

9. Taxation

Tax recognised in the Consolidated Income Statement

For the year ended (in $ millions)	2018 31 Dec	2017 31 Dec
Tax charged/(credited) in the Consolidated Income Statement		
Current tax:		
Corporation tax on income for the year	**104.2**	106.3
Adjustments in respect of prior years	**0.4**	(7.6)
Total current tax	**104.6**	98.7
Deferred tax (credit)/charge	**(52.8)**	1.2
Total	**51.8**	99.9

Tax recognised in the Consolidated Statement of Comprehensive Income

For the year ended (in $ millions)	2018 31 Dec	2017 31 Dec
Tax (credit)/charge relating to items recognised directly in comprehensive income		
Current tax on:		
Exchange differences	**(1.1)**	0.5
Income tax recognised directly in comprehensive income	**(1.1)**	0.5
Total	**(1.1)**	0.5

Reconciliation of the total tax charge

Income taxes have been provided in accordance with IAS 12 'Income Taxes', and based on the tax laws and rates in the countries where the Group operates and generates income.

The reconciliation has been performed using a tax rate of 26.01% (2017: 27.08%) which represents the blended tax rate applicable to Luxembourg entities.

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Income before taxes	**216.3**	554.5
Tax at the blended tax rate of 26.01% (2017: 27.08%)	**56.3**	150.1
Effects of:		
Benefit of tonnage tax regimes	**(22.7)**	(20.4)
Different tax rates of subsidiaries operating in other jurisdictions	**(17.6)**	(55.6)
Movement in unprovided deferred tax	**(2.1)**	(4.0)
Tax effect of share of net income of associates and joint ventures	**0.7**	17.0
Withholding taxes and unrelieved overseas taxes	**26.5**	4.8
Other permanent differences	**6.9**	5.5
Foreign exchange movement on devalued currencies	**11.4**	–
Non-deductible amortisation	**1.9**	1.8
Revisions to uncertain tax positions	**(9.2)**	6.8
Adjustments related to prior years	**(0.3)**	(6.1)
Tax charge in the Consolidated Income Statement	**51.8**	99.9

Deferred tax

Movements in the net deferred tax balance were:

(in $ millions)	**2018**	2017
At year beginning	**(61.2)**	(47.5)
Charged to:		–
Consolidated Income Statement	**52.8**	(1.2)
Recognised on acquisition of businesses	**0.2**	(9.9)
Balance sheet transfers	**(0.4)**	(1.7)
Exchange differences	**(2.0)**	(0.9)
At year end	**(10.6)**	(61.2)

The main categories of deferred tax assets and liabilities recognised in the Consolidated Financial Statements, before offset of balances within countries where permitted, were as follows:

At 31 December 2018

(in $ millions)	**Deferred tax asset**	**Deferred tax liability**	**Net recognised deferred tax asset/(liability)**
Intangible assets	**–**	**(6.9)**	**(6.9)**
Property, plant and equipment	**–**	**(40.1)**	**(40.1)**
Accrued expenses	**15.3**	**–**	**15.3**
Share-based payments	**1.0**	**–**	**1.0**
Tax losses	**22.7**	**–**	**22.7**
Other	**3.6**	**(6.2)**	**(2.6)**
Total	**42.6**	**(53.2)**	**(10.6)**

9. Taxation continued
Deferred tax continued
At 31 December 2017

(in $ millions)	Deferred tax asset	Deferred tax liability	Net recognised deferred tax asset/(liability)
Intangible assets	–	(10.9)	(10.9)
Property, plant and equipment	–	(43.3)	(43.3)
Accrued expenses	6.0	(20.8)	(14.8)
Share-based payments	0.7	–	0.7
Tax losses	12.4	–	12.4
Other	0.5	(5.8)	(5.3)
Total	19.6	(80.8)	(61.2)

Deferred tax is analysed in the Consolidated Balance Sheet, after offset of balances within countries, as:

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Deferred tax assets	**28.9**	17.2
Deferred tax liabilities	**(39.5)**	(78.4)
Total	**(10.6)**	(61.2)

At 31 December 2018, the Group had tax losses of $2,264.2 million (2017: $2,078.2 million) available for offset against future taxable income. A deferred tax asset has been recognised, using the applicable tax rates, in respect of $79.9 million (2017: $36.4 million) of such losses. No deferred tax asset has been recognised in respect of the remaining $2,184.3 million (2017: $2,041.8 million) as it is not considered probable that there will be sufficient future taxable income available for offset. In addition, the Group has other unrecognised deferred tax assets of approximately $19.4 million (2017: $23.5 million) in respect of other temporary differences.

No deferred tax has been recognised in respect of temporary differences relating to the unremitted earnings of the Group's subsidiaries and branches where remittance is not contemplated and where the timing of distribution is within the control of the Group and for those interests in associates and joint arrangements where it has been determined that no additional tax will arise. The aggregate amount of unremitted earnings giving rise to such temporary differences for which deferred tax liabilities were not recognised at 31 December 2018 was $902.8 million (2017: $989.4 million).

Tonnage tax regime
The tax charge reflected a net benefit in the year of $22.7 million (2017: $20.4 million) as a result of activities taxable under the particular tonnage tax regimes that the Group has elected into, as compared to the tax that would be payable if those activities were not eligible.

Net operating losses (NOLs)
NOLs to carry forward in various countries will expire as follows:

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Within five years	**51.7**	36.7
5 to 10 years	**247.1**	258.0
11 to 20 years	**151.8**	120.9
Without time limit	**1,813.6**	1,662.6
Total	**2,264.2**	2,078.2

There were $106.0 million (2017: $119.5 million) of NOLs included in the above relating to Brazil on which no deferred tax asset was recognised by the Group at 31 December 2018. Cumulative losses included in the above in respect of operations in the Gulf of Mexico were $395.3 million (2017: $369.5 million).

Included in the above were $1,401.4 million (2017: $1,409.9 million) of NOLs relating to Luxembourg, which could be subject to future claw-back if certain transactions were entered into.

Tax contingencies and provisions

The Group's business operations are carried out worldwide and, as such, the Group is subject to the jurisdiction of a significant number of tax authorities at any one point in time.

The Group routinely has to manage tax risks in respect of permanent establishments, transfer pricing and other international issues. In common with other multinational companies, the conflict between the Group's global operating model and the jurisdictional approach of tax authorities can lead to uncertainty on tax positions.

This often results in the Group's filing positions being subject to audit, enquiry and possible re-assessment. In 2018, the Group was subject to audits and disputes in, amongst others, Angola, Australia, Brazil, Canada, France, Nigeria and Norway. These audits are at various stages of completion. The Group's policy is to co-operate fully with the relevant tax authorities while seeking to defend its tax positions.

The Group provides for the amount of taxes that it considers probable of being payable as a result of such audits and for which a reasonable estimate can be made. Furthermore, each year Management completes a detailed review of uncertain tax positions across the Group, and makes provisions based on the probability of a liability arising. It is possible that ultimate resolution of these uncertain positions could result in tax charges that are materially higher or lower than the amount provided for.

In the year ended 31 December 2018, the Group recorded a net decrease in its tax contingencies of $9.2 million (2017: $7.3 million increase) as a result of revisions to estimated future obligations, and the resolution of certain matters with the relevant tax authorities.

10. Dividends

A special dividend of NOK 5.00 per share was approved by the shareholders of Subsea 7 S.A. at the Annual General Meeting on 17 April 2018 and recognised in shareholders' equity in April 2018. The special dividend was paid from the share premium account which in accordance with Luxembourg law is included in the distributable reserves of Subsea 7 S.A. The total dividend of $204.3 million was paid on 2 May 2018 to shareholders of Subsea 7 S.A. recorded as of 26 April 2018.

11. 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 year, excluding shares repurchased by the Group and held as treasury shares (Note 24 'Treasury shares').

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company's potentially dilutive common shares include those related to share options and performance shares. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The net income or loss attributable to shareholders of the parent company and share data used in the basic and diluted earnings per share calculations were as follows:

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Net income attributable to shareholders of the parent company	**182.5**	454.8
Interest on convertible bonds (net of taxation and amounts capitalised)	**–**	4.7
Earnings used in the calculation of diluted earnings per share	**182.5**	459.5

For the year ended	**2018 31 Dec Number of shares**	2017 31 Dec Number of shares
Weighted average number of common shares used in the calculation of basic earnings per share	**325,484,782**	326,013,650
Convertible bonds	**–**	10,748,457
Share options and performance shares	**1,706,065**	1,728,282
Weighted average number of common shares used in the calculation of diluted earnings per share	**327,190,847**	338,490,389

For the year ended (in $ per share)	**2018 31 Dec**	2017 31 Dec
Basic earnings per share	**0.56**	1.39
Diluted earnings per share	**0.56**	1.36

11. Earnings per share continued

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

For the year ended	**2018 31 Dec Number of shares**	2017 31 Dec Number of shares
Share options and performance shares	**538,762**	1,127,927

12. Business combinations

Acquisition of certain businesses and assets of Siem Offshore Inc.

On 10 April 2018, indirect subsidiaries of Subsea 7 S.A. acquired the entire share capital of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH), its UK subsidiary, the inter-array cable lay vessel, *Seaway Aimery* (formerly *Siem Aimery*), and the support vessel, *Seaway Moxie* (formerly *Siem Moxie)*. As a result of the transaction Seaway Offshore Cables GmbH became a wholly-owned subsidiary of the Group and its results are recognised within the Renewables and Heavy Lifting business unit from the date of acquisition.

Seaway Offshore Cables GmbH is a well-known installer of subsea inter-array cables and provides repair and maintenance services to the global offshore renewable energy market. It employs approximately 100 people. At the date of the transaction Seaway Offshore Cables GmbH was a wholly-owned subsidiary of Siem Offshore Inc., which is a related party to Subsea 7 S.A. The vessels, *Seaway Aimery* and *Seaway Moxie*, were purchased from Siem Offshore Rederi AS, which is a wholly-owned subsidiary of Siem Offshore Inc.

The primary reason for the transaction is to expand Subsea 7's presence in the renewables segment. Stamp duty and other expenses incurred in connection with the acquisition have been accounted for separately and recorded within operating expenses in the Group's Consolidated Income Statement.

The provisional fair values of identifiable assets and liabilities acquired as at 10 April 2018 are shown below. This table is inclusive of adjustments recognised between the date of the acquisition and 31 December 2018.

(in $ millions)	
Assets	
Intangible assets	**2.6**
Property, plant and equipment	**117.2**
Financial investments	**1.9**
Deferred tax assets	**1.5**
Inventories	**0.8**
Trade and other receivables	**3.8**
Construction contracts – assets	**31.6**
Other accrued income and prepaid expenses	**2.5**
Cash and cash equivalents	**9.6**
	171.5
Liabilities	
Trade and other liabilities	**27.0**
Current tax liabilities	**7.7**
Construction contracts – liabilities	**10.9**
	45.6
Identifiable net assets at fair value	**125.9**
Less: deferred tax liability recognised on intangible assets	**(0.8)**
Add: goodwill arising on acquisition	**74.2**
	199.3
Consideration comprised	
Cash consideration:	
Cash paid (net of working capital adjustment)	**164.5**
Contingent cash consideration	**32.3**
Exchange differences	**2.5**
Total consideration	**199.3**

Goodwill

Goodwill of $74.2 million comprises the value of intangible assets which do not meet the criteria for separate recognition, including the assembled workforce, the diversification of the fleet and complementary service capabilities. Goodwill is allocated to the Renewables and Heavy Lifting cash-generating unit (CGU) and is not expected to be deductible for tax purposes. Subsequent to initial recognition of provisional amounts, retrospective adjustments to goodwill were made following the completion of certain post-transaction procedures specified at the time of the business combination. A reconciliation of the movement in goodwill from the balance initially recognised at the date of acquisition to the balance at 31 December 2018, subsequent to adjustments, is shown below:

(in $ millions)

Provisional goodwill arising on business combination	**70.2**
Adjustments to identifiable net assets at fair value subsequent to initial recognition	**0.8**
Increase in contingent consideration subsequent to initial recognition	**4.6**
Exchange differences	**(1.4)**
At 31 December 2018	**74.2**

Contingent consideration

As part of the sale and purchase agreement with the previous owners, contingent consideration has been agreed. Additional cash payments to the previous owners may be payable should specific targets be met in future periods.

At the acquisition date, the fair value of the contingent consideration was estimated to be $30.2 million. The fair value was determined using high level management assumptions based on forecast activity levels and associated cable installation using information available at the date of acquisition. Subsequent to initial recognition, finalisation of detailed long-term forecasts for market activity indicated that a revision to the contingent consideration was required and as a result the contingent consideration was increased by $4.6 million to $32.3 million, net of exchange differences. A reconciliation of the fair value measurement of the provision for contingent consideration is shown below:

(in $ millions)

Provisional liability arising on business combination	**30.2**
Increase in contingent consideration subsequent to initial recognition	**4.6**
Exchange differences	**(2.5)**
At 31 December 2018	**32.3**

A significant increase or decrease in forecast activity levels would result in a higher or lower fair value of the provision for contingent consideration. The range of potential outcomes is estimated to be between $nil and $113.8 million.

Receivables

Receivables are shown at fair value and represent the gross contractual amounts receivable.

Financial performance

The financial performance, from the date of acquisition to 31 December 2018, of Seaway Offshore Cables GmbH and its UK subsidiary has not been disclosed. Management consider that this is not representative of the contribution to the Group in the period following the business combination as this does not include the impact of the acquisitions of the inter-array cable lay vessel, *Seaway Aimery*, and the support vessel, *Seaway Moxie*, which were an integral part of the business combination. If the combination had taken place at the beginning of the year, revenue for 2018 for the Group would have been $4,081.8 million and income before tax for 2018 for the Group would have been $210.8 million. The figures disclosed exclude any transactions between Seaway Offshore Cables GmbH and subsidiaries of the Group.

13. Goodwill

(in $ millions)	Total
Cost	
At 1 January 2017	2,172.2
Acquisitions	45.6
Exchange differences	106.0
At 31 December 2017	2,323.8
Adjustments to identifiable net assets at fair value subsequent to initial recognition	2.4
Acquisitions (Note 12)	74.2
Exchange differences	(85.4)
At 31 December 2018	**2,315.0**
Accumulated impairment	
At 1 January 2017	1,544.5
Exchange differences	78.5
At 31 December 2017	1,623.0
Exchange differences	(59.3)
At 31 December 2018	**1,563.7**
Carrying amount	
At 31 December 2017	700.8
At 31 December 2018	**751.3**

On 10 April 2018, indirect subsidiaries of Subsea 7 S.A. acquired the entire share capital of Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH). The acquisition resulted in the recognition of goodwill of $74.2 million. All of this goodwill is allocated to the Renewables and Heavy Lifting CGU.

For financial management and reporting purposes, the Group is organised into management regions. During 2018 for operational reasons the management region for NSC was disaggregated into two separate management regions: Norway; UK and Canada. Management regions are aligned with the Group's business units which are used by the Chief Operating Decision Maker (CODM) to allocate resources and appraise performance.

The Group has nine CGUs which are aligned with management regions; these are:

- CGUs for Asia Pacific and Middle East, Brazil, Gulf of Mexico, Norway and the United Kingdom and Canada include activities connected with the performance of regional projects including SURF activities (related to the engineering, procurement, construction and installation of offshore systems), Conventional services (including the fabrication, installation, extension and refurbishment of platforms and pipelines in shallow water) and the long-term PLSV contracts in Brazil. This CGU excludes projects which are delivered by the Global Project Centre which are allocated to the Africa and Global Projects CGU.
- Africa and Global Projects CGU includes activities connected with the performance of regional SURF and Conventional services projects in Africa and activities related to the performance of global projects managed within the Global Project Centre.
- Life of Field (formerly named i-Tech Services) CGU includes activities connected with the provision of Inspection, Maintenance and Repair (IRM) services, integrity management of subsea infrastructure and remote intervention support.
- Pipelines Group CGU includes activities connected with the fabrication and installation of polymer-lining technology for pipelines and riser systems.
- Renewables and Heavy Lifting CGU includes activities connected with 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.

The Group performed its annual goodwill impairment test at 31 December 2018. The carrying amounts of goodwill allocated to the CGUs subsequent to this review were as follows:

As at (in $ millions)	2018 31 Dec	2017 31 Dec Re-presented[a]
Africa and Global Projects	**387.3**	401.3
Asia Pacific and Middle East	**14.9**	10.9
Life of Field	**62.7**	64.5
Norway	**105.2**	105.9
Pipelines Group	**14.4**	15.2
Renewables and Heavy Lifting	**101.9**	34.7
UK and Canada	**64.9**	68.3
Total	**751.3**	700.8

(a) Re-presented due to the disaggregation of the NSC CGU into Norway; UK and Canada.

The recoverable amounts of the CGUs were determined based on a value-in-use calculation using pre-tax, risk adjusted cash flow projections approved by the Executive Management Team covering a five-year period from 2019 to 2023. Cash flows beyond this five-year period were extrapolated in perpetuity using a 2.0% (2017: 2.0%) growth rate to determine the terminal value. The pre-tax discount rate applied to the risk adjusted cash flow projections was 11.7% (2017: 11.0%).

Following the annual impairment review, no impairment charges were recognised for the year ended 31 December 2018 (2017: $nil).

Key assumptions used in value-in-use calculations

The calculations of value-in-use for all CGUs are most sensitive to the following assumptions:

- EBITDA forecasts;
- discount rate; and
- the growth rate used to extrapolate cash flows.

EBITDA forecast – The EBITDA forecast for each CGU is dependent on a combination of factors including market size, market share, contractual backlog, gross margins, future project awards, asset utilisation and an assessment of the impacts of competition within the industry. Assumptions are based on a combination of internal and external studies, management judgements and historical information, adjusted for any foreseen changes in market conditions.

Discount rate – The discount rate was estimated based on the weighted average cost of capital of the Group, amended to reflect a normalised capital structure for the industry. Risk premiums were not applied to the discount rate applied to individual CGUs as the CGU cash flow projections were risk adjusted.

Growth rate estimates – The 2.0% (2017: 2.0%) growth rate used to extrapolate the cash flow projections beyond the five-year period is broadly consistent with market expectations for long-term growth in the industry and assumes no significant change in the Group's market share and the range of services and products provided.

Sensitivity to changes in assumptions

In determining the value-in-use recoverable amount for each CGU, sensitivities have been applied to each of the key assumptions. In respect of EBITDA forecasts, a number of scenarios were considered. These scenarios incorporate the level of capital expenditure required for the Group to remain as a leading contractor within the subsea sector.

In the performance of sensitivity analysis the impact of the following changes to key assumptions were assessed:

- an increase in the pre-tax discount rate by 1 percentage point
- a decrease in the pre-tax discount rate by 1 percentage point
- an increase in the long-term growth rate by 1 percentage point
- a decrease in the long-term growth rate by 1 percentage point
- a 5% decrease in the EBITDA upon which terminal values have been calculated
- a 5% increase in the EBITDA upon which terminal values have been calculated

CGUs not impaired and not sensitive to impairment

No reasonably possible change in any of the key assumptions would, in isolation, cause the recoverable amount of the Africa and Global Projects CGU, the Asia Pacific and Middle East CGU, the Life of Field CGU, the Norway CGU, the Pipelines Group CGU or the UK and Canada CGU to be materially less than its carrying amount.

The GOM CGU and the Brazil CGU have no goodwill, therefore any future changes in the key assumptions, in isolation, would not result in a further impairment charge being recognised against goodwill.

13. Goodwill continued

CGUs not impaired but sensitive to impairment

The only CGU where a reasonably possible change to any key assumption would, in isolation, cause the recoverable amount to be materially less than its carrying amount is the Renewables and Heavy Lifting CGU. At 31 December 2018 the recoverable amount of the Renewables and Heavy Lifting CGU exceeded the carrying amount by $75.0 million (2017: $33.0 million).

An increase of one percentage point in the discount rate in isolation would lead to an aggregate goodwill impairment charge recognised against the Renewables and Heavy Lifting CGU for the year ended 31 December 2018 of $10.6 million. Variations to other key assumptions, in isolation, would not result in a goodwill impairment charge.

14. Intangible assets

(in $ millions)	Software	Customer contracts (Backlog)	Other intangibles	Total
Cost				
At 1 January 2017	33.0	–	30.3	63.3
Acquisition of businesses	1.1	28.1	34.1	63.3
Additions	2.7	–	4.6	7.3
Exchange differences	1.6	–	2.9	4.5
At 31 December 2017	38.4	28.1	71.9	138.4
Acquisition of businesses (Note 12)	–	2.6	–	2.6
Additions	3.7	–	2.9	6.6
Disposals	(5.4)	–	(0.5)	(5.9)
Exchange differences	(2.1)	(0.2)	(1.9)	(4.2)
At 31 December 2018	**34.6**	**30.5**	**72.4**	**137.5**
Accumulated amortisation and impairment				
At 1 January 2017	21.2	–	7.2	28.4
Charge for the year	5.0	12.8	8.6	26.4
Exchange differences	2.4	–	0.2	2.6
At 31 December 2017	28.6	12.8	16.0	57.4
Charge for the year	4.2	14.8	11.8	30.8
Impairments	–	1.4	23.9	25.3
Eliminated on disposals	(5.4)	–	(0.5)	(5.9)
Exchange differences	(1.5)	–	(0.5)	(2.0)
At 31 December 2018	**25.9**	**29.0**	**50.7**	**105.6**
Carrying amount:				
At 31 December 2017	9.8	15.3	55.9	81.0
At 31 December 2018	**8.7**	**1.5**	**21.7**	**31.9**

The table above includes assets under construction of $9.6 million (2017: $0.8 million).

An impairment test was performed at 31 December 2018.

In 2017, as a result of the Group's acquisition of certain businesses of EMAS Chiyoda Subsea, the Group recognised intangible assets for unexecuted contractual backlog and for the initial contractual term of a multi-year frame agreement with a third party. Revisions to forecasts and changes to both market conditions and the competitive environment have adversely impacted forecast profitability for the remaining contractual term of the frame agreement. As a result impairment charges of $25.3 million were recognised in 2018 to reduce the carrying amount of these other intangibles to an aggregated recoverable amount of $nil at 31 December 2018. These charges were recognised within the SURF and Conventional operating segment.

Recoverable amount is defined as the higher of value-in-use and fair value less costs of disposal. Estimates of value-in-use for the intangible assets were estimated in line with Level 3 of the 'fair value hierarchy' contained within IFRS 13 'Fair Value Measurement' and were determined by Management using cash flow projections and assumed forecast profitability for unexecuted contractual backlog and forecasts for future awards.

15. Property, plant and equipment

(in $ millions)	Vessels	Operating equipment	Land and buildings	Other assets	Total
Cost					
At 1 January 2017	5,013.6	841.2	515.3	70.2	6,440.3
Acquisition of businesses	685.4	30.7	0.5	2.1	718.7
Additions	142.7	40.6	9.5	6.7	199.5
Reclassified as held for sale	–	–	1.4	–	1.4
Exchange differences	65.9	27.7	10.4	8.7	112.7
Disposals	(96.1)	(22.2)	(16.8)	(5.6)	(140.7)
Transfers	(47.1)	67.7	(17.0)	(3.6)	–
At 31 December 2017	5,764.4	985.7	503.3	78.5	7,331.9
Acquisition of business	113.7	3.3	–	0.2	117.2
Additions	159.9	28.8	30.4	3.5	222.6
Exchange differences	(46.5)	(22.3)	(19.7)	(4.1)	(92.6)
Disposals	(272.0)	(52.9)	(1.5)	(12.7)	(339.1)
Transfers	(35.8)	34.9	(3.7)	4.6	–
At 31 December 2018	**5,683.7**	**977.5**	**508.8**	**70.0**	**7,240.0**
Accumulated depreciation and impairment					
At 1 January 2017	1,534.9	519.0	201.6	61.3	2,316.8
Charge for the year	283.4	75.7	24.0	5.4	388.5
Impairments	23.9	7.3	0.1	0.2	31.5
Reclassified as held for sale	–	–	0.7	–	0.7
Exchange differences	25.0	14.6	3.5	3.8	46.9
Eliminated on disposals	(96.1)	(22.2)	(16.8)	(5.5)	(140.6)
Transfer	(47.1)	43.5	3.6	–	–
At 31 December 2017	1,724.0	637.9	216.7	65.2	2,643.8
Charge for the year	288.9	71.1	24.0	5.6	389.6
Impairments	1.0	12.4	–	–	13.4
Exchange differences	(18.6)	(14.2)	(5.3)	(2.4)	(40.5)
Eliminated on disposals	(269.5)	(51.5)	(1.5)	(12.7)	(335.2)
Transfers	(35.8)	34.9	–	0.9	–
At 31 December 2018	**1,690.0**	**690.6**	**233.9**	**56.6**	**2,671.1**
Carrying amount:					
At 31 December 2017	4,040.4	347.8	286.6	13.3	4,688.1
At 31 December 2018	**3,993.7**	**286.9**	**274.9**	**13.4**	**4,568.9**

The table above includes assets under construction of $190.3 million at 31 December 2018 (2017: $101.0 million) which includes the construction of the new reel-lay vessel, *Seven Vega*, and associated pipe-lay equipment.

An impairment test was performed at 31 December 2018.

Decreased expected future utilisation for specific classes of Remotely Operated Vehicles (ROVs) and associated equipment resulted in the recognition of impairment charges of $13.4 million to reduce the carrying amounts of specific assets to an aggregated recoverable amount of $nil. $12.4 million of the impairment charges were reported within the Life of Field operating segment with $1.0 million being reported within the SURF and Conventional operating segment.

Recoverable amount is defined as the higher of value-in-use and fair value less costs of disposal and was determined by Management based on recent similar market transactions, an assessment of internal estimates and independent external valuations.

16. Interests in associates and joint arrangements

Interests in associates and joint ventures

At 31 December 2018 the Group had interests in one associate and six joint ventures. The Group's respective ownership interests in associates and joint ventures were as follows:

	Year end	Country of registration	Operating segment	Classification	Subsea 7 ownership %
Global Oceon	31 December	Nigeria	SURF and Conventional	Associate	40
Eidesvik Seven	31 December	Norway	Life of Field	Joint Venture	50
ENMAR	31 December	Mozambique	SURF and Conventional	Joint Venture	51
SapuraAcergy[(a)]	31 January	Malaysia	SURF and Conventional	Joint Venture	50
Subsea 7 Malaysia	31 December	Malaysia	SURF and Conventional	Joint Venture	30
Belmet 7	31 December	Ghana	SURF and Conventional	Joint Venture	49
Xodus	31 December	United Kingdom	SURF and Conventional	Joint Venture	60

(a) SapuraAcergy is the collective term for the Group's investments in its joint ventures SapuraAcergy Assets Pte Ltd and SapuraAcergy Sdn. Bhd. Subsea 7 has 50% equity ownership of SapuraAcergy Sdn. Bhd. Subsea 7 has 51% equity ownership in SapuraAcergy Assets Pte Ltd, however, 1% is subject to a put and call option for the benefit of its joint venture partner.

For all entities the principal place of business is consistent with the country of registration. For the majority of entities the proportion of voting rights is consistent with the proportion of ownership interest however in some cases some specific matters require unanimous approval of all shareholders.

All interests in associates and joint ventures are accounted for using the equity method. Financial information for the year ended 31 December 2018 is used for all entities. The movement in the balance of investments in associates and joint ventures was as follows:

(in $ millions)	**2018**	2017
At year beginning	**28.7**	378.5
Share of net loss of associates and joint ventures	**(2.8)**	(42.7)
Dividends recognised by the Group	**–**	(100.7)
Investment in joint venture	**1.8**	–
Acquisition of interest in joint venture	**18.9**	
Remeasurement of investments in joint ventures	**–**	25.0
Derecognition of investment in joint ventures	**–**	(234.3)
Net reclassification of negative investment balance	**(0.8)**	0.2
Share of other comprehensive income of associates and joint ventures	**–**	0.5
Exchange differences	**(0.6)**	2.2
At year end	**45.2**	28.7

Derecognition of investment in joint venture

On 6 September 2018 the SIMAR joint venture was liquidated.

Recognition of investment in joint venture

In 2018 the Group acquired a 60% ownership interest in Xodus Group Ltd.

Summarised financial information

At 31 December 2018 none of the Group's investments in associates or joint ventures were individually material to the Group therefore summarised financial information has not been provided.

Interests in joint arrangements

At 31 December 2018 the Group had a 50% interest in an unstructured joint operation governed by a consortium agreement ('the Consortium'). The Consortium includes EMC AMC Pte. Ltd (a wholly-owned subsidiary of the Group) and L&T Hydrocarbon Engineering Limited (a wholly-owned subsidiary of Larsen & Toubro Limited). The purpose of the Consortium is to tender for projects and execute contracts awarded by the Saudi Arabian Oil Company under a long-term agreement. All activities of the Consortium are executed on a joint and several basis. The Consortium's activities include project management, engineering, procurement, fabrication, transportation and installation of offshore facilities and infrastructure. The principal place of business of the unincorporated joint arrangement is the Kingdom of Saudi Arabia.

17. Advances and receivables

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Non-current amounts due from associates and joint ventures	**7.3**	6.7
Capitalised fees for long-term loan facilities	**2.1**	2.9
Deposits held by third parties	**1.0**	0.9
Other receivables	**28.0**	24.7
Total	**38.4**	35.2

18. Inventories

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Materials and non-critical spares	**11.7**	15.2
Consumables	**20.3**	21.5
Total	**32.0**	36.7

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Total cost of inventory charged to the Consolidated Income Statement	**79.1**	52.5
Write-down of inventories charged to the Consolidated Income Statement	**3.4**	6.6
Reversal of provision for obsolescence credited to the Consolidated Income Statement	**(3.5)**	(1.6)

At 31 December 2018 inventories included a provision for obsolescence of $10.9 million (2017: $12.2 million). There were no inventories pledged as security.

19. Trade and other receivables

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec[a]
Trade receivables	**487.0**	401.2
Provision for impairment of receivables	**–**	(19.4)
Allowance for expected credit losses	**(0.8)**	–
Allowance for credit impairment	**(18.9)**	–
	467.3	381.8
Current amounts due from associates and joint ventures	**14.2**	19.8
Provision for impairment of current amounts due from associates and joint ventures	**–**	(13.1)
Allowance for credit impairment of current amounts due from associates and joint ventures	**(2.2)**	–
	12.0	6.7
Other receivables	**59.6**	47.7
Advances to suppliers	**11.7**	2.4
Other taxes receivable	**57.3**	58.7
Total	**607.9**	497.3

(a) 2017 comparatives are presented in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Details of how the Group manages its credit risk and further analysis of the trade receivables balance, allowances for expected credit losses and allowances for credit impairment are shown in Note 32 'Financial instruments'.

Other taxes receivable related to value added tax, sales tax, withholding tax, social security and other indirect taxes.

Other receivables include insurance receivables, customer retentions and deposits.

20. Other accrued income and prepaid expenses

As at (in $ millions)	2018 31 Dec	2017 31 Dec[(a)]
Unbilled revenue	**84.6**	107.4
Allowance for expected credit losses	**(0.4)**	–
	84.2	107.4
Prepaid expenses	**81.5**	68.9
Total	**165.7**	176.3

(a) 2017 comparatives are presented in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Unbilled revenue related to work completed on day-rate contracts, which had not been billed to clients at the balance sheet date. There were no business combinations during the year which impacted this contract asset balance. There were no contract liability balances which relate to this category of contract revenue. Revenue of $0.6 million was recognised in the year relating to performance obligations satisfied in previous periods. The decrease in the balance during the year from $107.4 million to $84.6 million was largely driven by a reduction in the number of active pipelay support vessels in Brazil.

Prepaid expenses arise in the normal course of business and represent expenditure which has been deferred and which will be recognised in the Consolidated Income Statement within 12 months of the balance sheet date.

The movement in the allowance for expected credit losses in respect of unbilled revenue during the year was as follows:

(in $ millions)	Total
Allowance for expected credit losses	
Balance at 1 January 2018	**–**
Adjustment on implementation of IFRS 9	**(0.4)**
Movement in allowance recognised in profit or loss	**–**
Balance at 31 December 2018	**(0.4)**

The allowance for expected credit losses was impacted by fluctuations in the mix of customers, the size of receivables due and the percentage allowances applied.

At 31 December 2018 the allowance for credit impairment in respect of unbilled revenue was $nil.

21. Construction contracts

(in $ millions)	Construction contracts – assets	Construction contracts – liabilities
At 31 December 2018		
Current	**494.9**	**(167.8)**
Total	**494.9**	**(167.8)**

(in $ millions)	
Revenue recognised which was included in construction contract liabilities at beginning of year	**165.7**
Revenue recognised from performance obligations satisfied in previous periods	**29.5**

Revenue recognised which was included in construction contract liabilities at the beginning of the year of $165.7 million represents amounts included within the construction contract liabilities balance as at 1 January 2018 which have been recognised as revenue during 2018. Revenue recognised from performance obligations satisfied in previous periods of $29.5 million represents revenue recognised in the 2018 income statement for projects which were considered operationally complete at 31 December 2017.

Significant movements in the construction contract asset and construction contract liability balances

The Group has construction contract asset and construction contract liability balances as a result of long-term projects in the SURF and Conventional and Renewable and Heavy Lifting operating segments. Details of the Group's performance obligations are disclosed in Note 2 'Adoption of new accounting standards'. Construction contract assets and liabilities recognised in relation to business combinations have been disclosed in Note 12 'Business combinations'. Due to the number and size of projects within the Group, construction contract asset and liability balances can vary significantly at each reporting date. Cumulative adjustments to revenue are most commonly caused by a change to the estimate of the transaction price due to a reassessment of the constraint to variable consideration, awarded variation orders, scope changes or amendments to the cost profile.

The increase in construction contract assets of $175.8 million during 2018 is driven by an increase in activity in the SURF and Conventional segment, particularly in Asia Pacific and Middle East, in addition to the acquisition of Seaway Offshore Cables GmbH and its UK subsidiary during the year.

Construction contract assets

An analysis of the ageing of construction contract assets at the balance sheet date has not been provided. Due to the nature of the balances and the fact that the Group bills on a milestone basis, the ageing of construction contract assets is not reflective of the credit risk associated with these balances.

The movement in the allowance for expected credit losses in respect of construction contract assets during the year was as follows:

(in $ millions)	Total
Allowance for expected credit losses	
Balance at 1 January 2018	**–**
Adjustment on implementation of IFRS 9	**(1.8)**
Movement in allowance recognised in profit or loss	**1.3**
Balance at 31 December 2018	**(0.5)**

The allowance for expected credit losses decreased during the year due to fluctuations in the mix of customers, the size of receivables due and the percentage allowances applied.

At 31 December 2018 the allowance for credit impairment in respect of construction contract assets was $nil.

Transaction price allocated to the remaining performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 was as follows:

	Expected year of execution				
(in $ millions)	2019	2020	2021	2022 and beyond	Total
SURF and Conventional	**2,482.5**	**1,238.7**	**301.1**	**36.3**	**4,058.6**
Life of Field	**167.5**	**95.1**	**85.3**	**113.2**	**461.1**
Renewables and Heavy Lifting	**191.3**	**192.1**	**4.1**	**–**	**387.5**
Total	**2,841.3**	**1,525.9**	**390.5**	**149.5**	**4,907.2**

The Group has not adopted the practical expedients permitted by IFRS 15, therefore all contracts which have an original expected duration period of one year or less have been included in the table above. The estimate of the transaction price does not include any amounts of variable consideration which are constrained.

Disclosure of construction contracts – 2017 IAS 11

As at (in $ millions)	2017 31 Dec
Contracts in progress	
Construction contracts – assets	319.1
Construction contracts – liabilities	(200.0)
Total	119.1

Contract costs incurred plus recognised net profits less recognised losses to date	5,284.5
Less: progress billings	(5,165.4)
Total	119.1

Revenue from construction contracts during 2017 was $3.0 billion.

22. Cash and cash equivalents

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Cash and cash equivalents	**764.9**	1,109.1

Cash and cash equivalents included amounts totalling $50.3 million (2017: $103.7 million) held by Group undertakings in certain countries whose exchange controls may significantly restrict or delay the remittance of these amounts to foreign jurisdictions.

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23. Issued share capital

Authorised shares

As at	2018 31 Dec Number of shares	2018 31 Dec in $ millions	2017 31 Dec Number of shares	2017 31 Dec in $ millions
Authorised common shares, $2.00 par value	**450,000,000**	**900.0**	450,000,000	900.0

Issued shares

As at	2018 31 Dec Number of shares	2018 31 Dec in $ millions	2017 31 Dec Number of shares	2017 31 Dec in $ millions
Fully paid and issued common shares	**327,367,111**	**654.7**	327,367,111	654.7
The issued common shares consist of:				
Common shares excluding treasury shares	**319,127,087**	**638.2**	326,509,224	653.0
Treasury shares at par value (Note 24)	**8,240,024**	**16.5**	857,887	1.7
Total	**327,367,111**	**654.7**	327,367,111	654.7

24. Treasury shares

Share repurchase plan

On 31 July 2014, the Group announced a share repurchase programme of up to $200 million. The programme was approved pursuant to the standing authorisation granted to the Board of Directors at the Annual General Meeting held on 27 May 2011 (as renewed and extended by the Extraordinary General Meeting on 27 November 2014), which allows for the purchase of up to a maximum of 10% of the Group's issued share capital, net of purchases already made.

On 25 July 2017, the Board of Directors authorised a 24-month extension to the Group's share repurchase programme of up to $200 million. During 2018, the Group repurchased 8,149,699 treasury shares for a total consideration of $92.9 million. At 31 December 2018 cumulatively 13,422,355 shares had been repurchased under the July 2014 share repurchase programme for a total consideration of $149.9 million.

All repurchases have been made in the open market on the Oslo Børs, pursuant to certain conditions, and were in conformity with Article 49-2 of the Luxembourg Company Law and the EU Commission Regulation 2273/2003 on exemptions for repurchase programmes and stabilisation of financial instruments. At 31 December 2018 the remaining repurchased shares, which had not been reallocated relating to share-based payments, were held as treasury shares.

Summary

At 31 December 2018 Subsea 7 S.A. held 8,240,024 treasury shares (2017: 857,887), which amounted to 2.52% (2017: 0.26%) of the total number of issued shares.

	2018 Number of shares	2018 in $ millions	2017 Number of shares	2017 in $ millions
At year beginning	**857,887**	**19.7**	1,533,004	31.5
Additional shares transferred from an employee benefit trust	**–**	**–**	5,051	0.1
Shares repurchased	**8,149,699**	**92.9**	–	–
Shares reallocated relating to share-based payments	**(767,562)**	**(17.6)**	(680,168)	(11.9)
Balance at year end	**8,240,024**	**95.0**	857,887	19.7

25. Non-controlling interests

At 31 December 2018 the Group's respective ownership interests in subsidiaries which are non-wholly-owned were as follows:

	Year end	Country of registration	Subsea 7 ownership %
Sonamet	31 December	Angola	55.0
Sonacergy	31 December	Portugal	55.0
Globestar Engineering Company	31 December	Nigeria	98.8
Naviera Subsea 7	31 December	Mexico	49.0
Servicios Subsea 7	31 December	Mexico	52.0
PT Subsea 7 Indonesia	31 December	Indonesia	95.0
Subsea 7 Gabon	31 December	Gabon	99.8
NigerStar 7 Limited	31 December	Nigeria	49.0
NigerStar 7 FZE	31 December	Nigeria	49.0
Subsea 7 Volta Contractors	31 December	Ghana	49.0

For all entities, the principal place of business is consistent with the country of registration. Financial information recognised in the Group's Consolidated Financial Statements is based on financial information of the entity for the year ended 31 December 2018.

The movement in the equity attributable to non-controlling interests was as follows:

(in $ millions)	**2018**	2017
At year beginning	**48.4**	(46.9)
Share of net loss for the year	**(18.0)**	(0.2)
Additions	**–**	0.2
Reclassification of non-controlling interest to equity attributable to shareholders of Subsea 7 S.A.	**8.9**	95.7
Exchange differences	**(0.9)**	(0.4)
At year end	**38.4**	48.4

Derecognition of non-controlling interest

On 4 September 2018 Setemares was liquidated.

Reclassification of non-controlling interest

On 14 December 2018 the Group reached an agreement with the non-controlling interests in NigerStar 7 Limited and NigerStar FZE to restructure the shareholder's agreement. As a result, the deficit attributable to the non-controlling interests of NigerStar 7 Limited and NigerStar 7 FZE was reallocated from non-controlling interests to retained earnings within equity.

Summarised financial information

At 31 December 2018 none of the Group's non-controlling interests are individually material to the Group therefore summarised financial information has not been provided.

26. Borrowings

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
The Export Credit Agency (ECA) senior secured facility	**258.2**	282.7
Total	**258.2**	282.7
Consisting of:		
Non-current portion of borrowings	**233.6**	258.2
Current portion of borrowings	**24.6**	24.5
Total	**258.2**	282.7

Commitment fees expensed during the year in respect of unused lines of credit totalled $1.6 million (2017: $1.7 million).

Facilities

The multi-currency revolving credit and guarantee facility

The Group has a $656 million multi-currency revolving credit and guarantee facility which matures on 2 September 2021. The facility is with several banks and is available for the issuance of guarantees, up to a limit of $200 million, a combination of guarantees and cash drawings, or is available in full for cash drawings. The facility is guaranteed by Subsea 7 S.A. and Subsea 7 Finance (UK) PLC. The facility was unutilised at 31 December 2018.

26. Borrowings continued

The Export Credit Agency (ECA) senior secured facility

In July 2015 the Group entered into a $357 million senior term loan facility secured on two vessels under construction at the time. The facility is provided 90% by an Export Credit Agency (ECA) and 10% by two banks and is available for general corporate purposes. The ECA tranche has a 12-year maturity and a 12-year amortising profile. The bank tranche has a five-year maturity and a 15-year amortising profile, in all cases from the date of delivery of the vessels. If the bank tranche is not refinanced satisfactorily after five years then the ECA tranche also becomes due. During the first quarter of 2017 an amount of $301.3 million was drawn under the facility. The facility is guaranteed by Subsea 7 S.A. and Subsea 7 Finance (UK) PLC. At 31 December 2018 the amount outstanding under the facility was $258.2 million (2017: $282.7 million).

Utilisation of facilities

As at (in $ millions)	**2018 31 Dec Utilised**	**2018 31 Dec Unutilised**	**2018 31 Dec Total**	2017 31 Dec Utilised	2017 31 Dec Unutilised	2017 31 Dec Total
Committed borrowings facilities	**258.2**	**656.0**	**914.2**	282.7	656.0	938.7

Bank overdraft and short-term lines of credit

Overdraft facilities consisted of $6.3 million (2017: $6.7 million), of which $nil (2017: $nil) was drawn at 31 December 2018.

Other facilities

In addition to the above there are a number of uncommitted, unsecured bi-lateral guarantee arrangements in place in order to provide specific geographical coverage. The total utilisation of these facilities at 31 December 2018 was $753.3 million (2017: $542.0 million).

Guarantee arrangements with joint ventures

On 27 July 2016 Eidesvik Seven AS, a 50% owned joint venture between Eidesvik Offshore ASA and the Group, drew down NOK 572 million from a NOK 600 million bank loan facility to repay a shareholder loan from the Group. The facility, secured on the vessel, *Seven Viking*, is fully guaranteed by Subsea 7 S.A. with a 50% counter-guarantee from Eidesvik Shipping AS and has a termination date of 31 January 2021. The outstanding balance at 31 December 2018 was NOK 465 million ($53.3 million); (2017: NOK 513 million ($61.0 million).

27. Other non-current liabilities

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Accrued salaries and benefits	**7.7**	9.5
Non-current amounts due to associates and joint ventures	**1.8**	1.8
Other	**25.1**	38.6
Total	**34.6**	49.9

28. Trade and other liabilities

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Accruals	**580.3**	511.2
Trade payables	**188.4**	142.6
Current amounts due to associates and joint ventures	**10.7**	11.4
Accrued salaries and benefits	**104.6**	136.3
Withholding taxes	**16.6**	19.8
Other taxes payable	**63.0**	52.5
Other current liabilities	**14.5**	19.1
Total	**978.1**	892.9

29. Provisions

(in $ millions)	Claims	Decommissioning	Restructuring	Onerous lump-sum contracts	Other	Total
At 1 January 2017	12.2	17.4	102.3	–	38.6	170.5
Additional provision in the year	28.8	9.5	12.3	–	45.5	96.1
Utilisation of provision	(2.9)	(1.1)	(74.7)	–	(26.8)	(105.5)
Unused amounts released during the year	(0.6)	(3.6)	(15.0)	–	(3.6)	(22.8)
Reclassifications	–	–	(0.4)	–	0.4	–
Exchange differences	0.3	0.4	3.1	–	2.3	6.1
At 31 December 2017	37.8	22.6	27.6	–	56.4	144.4
Adjustment on implementation of IFRS 15	–	–	–	91.1	–	91.1
Additional provision in the year	5.7	6.1	11.8	206.6	49.8	280.0
Utilisation of provision	(25.0)	(11.0)	(25.1)	(144.6)	(26.0)	(231.7)
Unused amounts released during the year	(0.9)	(7.0)	(2.5)	(42.4)	(9.6)	(62.4)
Exchange differences	(1.5)	(0.2)	(1.2)	(1.2)	(1.2)	(5.3)
At 31 December 2018	**16.1**	**10.5**	**10.6**	**109.5**	**69.4**	**216.1**

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Consisting of:		
Non-current provisions	**98.7**	67.6
Current provisions	**117.4**	76.8
Total	**216.1**	144.4

The claims provision comprises a number of claims made against the Group including disputes, personal injury cases, tax claims and lease disputes, where the timing of resolution is uncertain.

The decommissioning provision is in relation to the Group's obligation to restore leased vessels to their original, or agreed, condition. The costs related to the provision are expected to be incurred in the year in which the leases cease, which range from 2021 to 2025.

The restructuring provision relates to expenses associated with cost reduction and headcount resizing activities. The provision includes employee termination costs, onerous lease charges and professional fees. The provision is based on statutory requirements and discretionary arrangements for headcount reductions and the best estimate of costs associated with onerous lease contracts. Cash outflows associated with termination costs and professional fees are expected to occur within 2019. Cash outflows associated with onerous leases are expected to occur between 2019 and 2023.

As a result of the adoption of IFRS 15 'Revenue from Contracts with Customers' all lump-sum onerous contract provisions have been reassessed in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', having previously been governed by IAS 11 'Construction Contracts'. Net onerous contract provisions of $91.1 million, which at 31 December 2017 were included in the Consolidated Balance Sheet within 'Construction contract – liabilities', have been remeasured and reallocated to 'Provisions'.

Other provisions include contingent consideration of $47.7 million (2017: $20.0 million) and provisions for onerous lease contracts, not associated with restructuring, and day-rate contracts.

30. Commitments and contingent liabilities

Commitments

The Group's commitments at 31 December 2018 consisted of:

- Commitments to purchase property, plant and equipment from external suppliers of $207.1 million (2017: $279.5 million) mainly related to the construction of the new reel-lay vessel, *Seven Vega*, and associated pipelay equipment and the purchase of the diving support vessel, *Toisa Pegasus*.
- Operating lease commitments as indicated in Note 31 'Operating lease arrangements'.

Contingent liabilities

A summary of the contingent liabilities is as follows:

	Contingent liability recognised		Contingent liability not recognised[a]	
(in $ millions)	**2018**	2017	**2018**	2017
At year beginning	**7.8**	7.5	**324.2**	219.4
New unrecognised contingent liabilities	**–**	–	**30.9**	101.0
Revisions to existing unrecognised contingent liabilities	**(0.8)**	–	**6.3**	10.3
Decrease in unrecognised contingent liabilities	**–**	–	**(0.8)**	(8.7)
Exchange differences	**(1.0)**	0.3	**(38.8)**	2.2
At year end	**6.0**	7.8	**321.8**	324.2

(a) Comparative financial information has been re-presented to include comparatives for contingent liabilities related to tax and labour disputes in Brazil, which are material for disclosure at 31 December 2018.

Contingent liabilities recognised in the Consolidated Balance Sheet

As a result of the business combination between Acergy S.A. and Subsea 7 Inc. on 7 January 2011, and in accordance with IFRS 3 'Business Combinations', a contingent liability of $9.3 million was recognised in the Consolidated Balance Sheet on 7 January 2011. This was in respect of claims made against Subsea 7 do Brasil Serviços Ltda, equivalent to $4.0 million as at 31 December 2018 (2017: $4.8 million). A further $3.3 million of contingent liabilities were recognised in the Consolidated Balance Sheet on 7 January 2011 in relation to several other smaller claims. Subsequently this has been reassessed and amounted to $0.1 million at 31 December 2018 (2017: $0.1 million).

As part of the accounting for the business combination of Pioneer Lining Technology Limited, IFRS 3 'Business Combinations' required the Group to recognise a contingent liability of £2.2 million, equivalent to $2.8 million at the acquisition date, in respect of contingent amounts payable to a third party following the acquisition of intangible assets in 2009. The contingent liability recognised within the Consolidated Balance Sheet at 31 December 2018 was $1.9 million (2017: $2.9 million).

Contingent liabilities not recognised in the Consolidated Balance Sheet

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 31 December 2018 amounted to BRL 750.7 million, equivalent to $192.6 million (2017: BRL 703.3 million, equivalent to $213.7 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.

At 31 December 2018 the Group's Brazilian business received a number of labour claims and civil tax assessments. The amounts claimed or assessed at 31 December 2018 totalled BRL 136.4 million, equivalent to $35.0 million (2017: BRL 50.9 million, equivalent to $15.5 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.

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 into the Group's Nigerian operations in the years 2010 to 2014, with particular regard to payroll taxes for offshore personnel. At 31 December 2018, 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 2017: $95.0 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, or $9.2 million.

In the ordinary course of business, various claims, legal actions and complaints have been filed against the Group in addition to those specifically referred to above. Although the final resolution of any such other matters could have a material effect on its operating results for a particular reporting period, the Group believes that it is not probable that these matters would materially impact its Consolidated Financial Statements.

31. Operating lease arrangements

The Group as lessee

For the year ended (in $ millions)	2018 31 Dec	2017 31 Dec
Charges recognised under operating leases	**106.0**	163.7

Operating lease commitments at 31 December 2018 totalled $395.6 million (2017: $339.8 million). These included vessel charter hire obligations of $271.6 million (2017: $175.5 million). The remaining obligations at 31 December 2018 related to office facilities and other equipment of $124.0 million (2017: $164.2 million).

The Group's outstanding lease commitments fall due as follows:

As at (in $ millions)	2018 31 Dec	2017 31 Dec
Within one year	**94.4**	112.7
Years two to five inclusive	**256.5**	187.8
After five years	**44.7**	39.3
Total	**395.6**	339.8

The operating leases have various terms and future renewal options. Renewal options which have not yet been exercised are excluded from the outstanding commitments.

32. Financial instruments

Significant accounting policies

Details of the significant accounting policies adopted including the classification, basis of measurement and recognition of income and expense in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 'Adoption of new accounting standards'.

Classification of financial instruments

Financial instruments are classified as follows:

As at (in $ millions)	2018 31 Dec Carrying amount	2017 31 Dec Carrying amount[a]
Financial assets		
Restricted cash	**4.1**	6.3
Cash and cash equivalents (Note 22)	**764.9**	1,109.1
Financial assets mandatorily measured at fair value through profit or loss:		
Foreign exchange forward contracts	**7.6**	0.9
Embedded derivatives	**3.6**	41.8
Financial assets measured at fair value through profit or loss:		
Other financial assets – financial investments	**15.9**	–
Financial assets elected to be measured at fair value through other comprehensive income:		
Other financial assets – financial investments	**7.2**	5.5
Financial assets measured at amortised cost:		
Net trade receivables (Note 19)	**467.3**	381.8
Non-current amounts due from associates and joint ventures (Note 17)	**7.3**	6.7
Net current amounts due from associates and joint ventures (Note 19)	**12.0**	6.7
Other financial receivables	**18.5**	22.3
Financial liabilities		
Financial liabilities mandatorily measured at fair value through profit or loss:		
Foreign exchange forward contracts	**(4.3)**	(4.2)
Embedded derivatives	**(2.8)**	(20.6)
Contingent consideration (Note 29)	**(47.7)**	(20.0)
Financial liabilities measured at amortised cost:		
Trade payables (Note 28)	**(188.4)**	(142.6)
Non-current amounts due to associates and joint ventures (Note 27)	**(1.8)**	(1.8)
Current amounts due to associates and joint ventures (Note 28)	**(10.7)**	(11.4)
Borrowings – facilities (Note 26)	**(258.2)**	(282.7)
Other financial payables	**(11.2)**	(8.8)

(a) 2017 comparatives are presented in accordance with IAS 39 'Financial instruments: Recognition and Measurement'.

32. Financial instruments continued

Fair value

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Consolidated Financial Statements approximate their fair values due to their short-term nature or contractual cash flow characteristics.

Financial instruments - gains and losses recognised within profit or loss for 2018

The Group's financial instruments resulted in the recognition of the following in the Consolidated Income Statement:

For the year ended (in $ millions)	2018 31 Dec
Interest income from financial assets measured at amortised cost	**16.1**
Net fair value losses on financial assets measured at fair value through profit or loss	**(36.0)**
Net fair value gains on financial liabilities measured at fair value through profit or loss	**17.7**

Fees incurred in connection with financial instruments

Total fees incurred during the year in connection with financial instruments measured at amortised cost were $2.9 million.

Cash and cash equivalents

At 31 December 2018 the Group held cash and cash equivalents of $764.9 million which includes cash and cash equivalents available on demand of $294.5 million (2017: $348.1 million) and time deposits with financial institutions.

The table below shows the carrying amount of amounts on deposit. These are graded and monitored internally by the Group based on current external credit ratings issued, with 'prime' being the highest possible rating.

As at (in $ millions)	2018 31 Dec	2017 31 Dec
Deposits:		
Counterparties rated prime grade	**145.0**	246.0
Counterparties rated high grade	**20.0**	75.0
Counterparties rated upper-medium grade	**280.4**	359.6
Counterparties rated lower-medium grade	**25.0**	63.5
Counterparties rated non-investment grade	**–**	16.9
Total	**470.4**	761.0

Financial instruments mandatorily measured at fair value through profit or loss

The Group classifies its financial assets at fair value through profit or loss if it is classified as one of the following:

- debt instruments that do not qualify for measurement at either amortised cost or at fair value through other comprehensive income
- equity investments that are held for trading
- equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income

Embedded foreign currency derivatives, arising from multi-currency contracts, are separated where the host contract does not qualify as a financial asset, where the transactional currency differs from the functional currencies of the involved parties and a separate instrument, with the same terms as the embedded derivative, would meet the definition of a derivative.

Derivative financial instruments recognised in the Consolidated Balance Sheet were as follows:

As at (in $ millions)	31 Dec 2018 Assets	31 Dec 2018 Liabilities	31 Dec 2018 Total	31 Dec 2017 Assets	31 Dec 2017 Liabilities	31 Dec 2017 Total
Non-current						
Forward foreign exchange contracts	**–**	**(2.4)**	**(2.4)**	–	–	–
Embedded derivatives	**0.7**	**(0.6)**	**0.1**	5.8	(0.5)	5.3
Current						
Forward foreign exchange contracts	**7.6**	**(1.9)**	**5.7**	0.9	(4.2)	(3.3)
Embedded derivatives	**2.9**	**(2.2)**	**0.7**	36.0	(20.1)	15.9

Contingent consideration

Contingent consideration relates to amounts payable in connection with business combinations. The amounts payable are contingent on future events and are determined based on current expectations of the achievement of specific targets and milestones.

Financial instruments measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprise investments in quoted securities which the Group expects to divest within 12 months of the balance sheet date. As the investments are non-strategic in nature, changes in fair value have been recognised in profit or loss.

Financial instruments elected to be measured at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise investments in equity securities not held for trading, and for which the Group has made an irrevocable election, at initial recognition, to recognise changes in fair value through other comprehensive income rather than profit or loss as these investments are strategic in nature.

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 enable the Group to accurately measure fair value. As a result, at 31 December 2018, the investments continue to be carried at cost as, in each case, cost is considered to represent the best estimate of fair value of each investment within a range of possible outcomes. As a result no fair value remeasurement gains were recognised within other comprehensive income during 2018.

Upon disposal of these equity investments, any associated balance accumulated within other comprehensive income will be reclassified to retained earnings and will not be reclassified to the Consolidated Income Statement. No investments were derecognised during the year.

During the year no dividends were recognised within profit or loss in connection with the financial investments. During the year there were no transfers of cumulative gains or losses within equity.

Financial assets measured at amortised cost
The Group classifies its financial assets as amortised cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial risk management objectives
The Group monitors and manages the financial risks relating to its financial operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (consisting of currency risk and fair value interest rate risk), credit risk and liquidity risk. The Group seeks to minimise the effects of these risks by using a variety of financial instruments to hedge these financial risk exposures.

Derivative financial instruments are used exclusively for hedging purposes and not as trading or speculative instruments. The Group does not currently apply hedge accounting.

Market risk
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risks, including forward foreign exchange contracts to hedge the exchange rate risk arising on future revenues, operating expenditures and capital expenditure.

In the year ended 31 December 2018, there was no significant change to the Group's exposure to market risks or the manner in which it managed and measured the risk.

Foreign currency risk
The Group conducts operations in many countries and, as a result, is exposed to currency fluctuations related to revenue and expenditure in the normal course of business. The Group has in place risk management policies that seek to limit the adverse effects of fluctuations in foreign currency exchange rates on its financial performance.

The Group's reporting currency is the US Dollar. Revenue and operating expenses are principally denominated in the reporting currency of the Group. The Group also has significant operations denominated in British Pound Sterling and Euro as well as other cash flows in Angolan Kwanza, Australian Dollar, Brazilian Real, Canadian Dollar, Danish Krone, Egyptian Pound, Ghanaian Cedi, Malaysian Ringgit, Mexican Peso, Nigerian Naira, Norwegian Krone, Saudi Arabian Riyal, Singaporean Dollar and UAE Dirham.

Foreign currency sensitivity analysis
The Group considers that its principal currency exposure is to movements in the US Dollar against other currencies. The US Dollar is the Group's reporting currency, the functional currency of many of its subsidiaries and the currency of a significant volume of the Group's cash flows.

At 31 December 2018 the Group performed a sensitivity analysis to indicate the extent to which net income and equity would be affected by changes in the exchange rate between the US Dollar and other currencies in which the Group transacts. The analysis is based on a strengthening of the US Dollar by 10% against each of the other currencies in which the Group has significant assets and liabilities at the end of each respective period. A movement of 10% reflects a reasonably possible sensitivity when compared to historical movements over a three to five-year time-frame. The Group's analysis of the impact on net income in each year is based on monetary assets and liabilities in the Consolidated Balance Sheet at the end of each respective year.

The Group's analysis of the impact on equity includes the impacts on the translation reserve in respect of intra-group balances that form part of the net investment in a foreign operation. The amounts disclosed have not been adjusted for the impact of taxation.

A 10% strengthening in the US Dollar exchange rate against other currencies in which the Group transacts would increase net foreign currency exchange gains reported in other gains and losses by $19.0 million for the year ended 31 December 2018 (2017: $23.2 million). The impact would be a decrease in reported equity of $8.3 million (2017: increase of $11.9 million).

Forward foreign exchange contracts
The Group primarily enters into forward foreign exchange contracts with maturities of up to three years, to manage the risk associated with transactions with a foreign exchange exposure risk. These transactions consist of highly probable cash flow exposures relating to revenue, operating expenditure and capital expenditure.

The Group does not use derivative instruments to hedge the exposure to exchange rate fluctuations from its net investments in foreign subsidiaries.

32. Financial instruments continued

The following table details the external forward foreign exchange contracts outstanding:

As at 31 December 2018

	Contracted amount by contract maturity				Fair value by contract maturity	
	Buy		Sell		Maturity	
(in $ millions)	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
British Pound Sterling	**5.1**	**11.3**	**316.7**	**–**	**3.8**	**(0.8)**
Canadian Dollar	**–**	**–**	**1.9**	**–**	**–**	**–**
Danish Krone	**39.8**	**7.2**	**–**	**–**	**(0.1)**	**(0.3)**
Euro	**64.8**	**31.2**	**–**	**–**	**(1.3)**	**(1.3)**
Norwegian Krone	**1.1**	**0.5**	**126.2**	**–**	**2.2**	**–**
Singapore Dollar	**5.1**	**–**	**–**	**–**	**–**	**–**
Australian Dollar	**–**	**–**	**59.4**	**–**	**1.1**	**–**
Total	**115.9**	**50.2**	**504.2**	**–**	**5.7**	**(2.4)**

As at 31 December 2017[a]

	Contracted amount by contract maturity				Fair value by contract maturity	
	Buy		Sell		Maturity	
(in $ millions)	< 1 Year	1-5 Years	< 1 Year	1-5 Years	< 1 Year	1-5 Years
British Pound Sterling	–	–	89.2	–	(0.7)	–
Canadian Dollar	–	–	1.6	–	–	–
Danish Krone	1.1	–	–	–	–	–
Euro	38.0	–	–	–	–	–
Norwegian Krone	142.1	–	22.4	–	(2.8)	–
Singapore Dollar	11.0	–	3.3	–	–	–
Australian Dollar	–	–	78.1	–	0.2	–
Total	192.2	–	194.6	–	(3.3)	–

(a) Re-presented to exclude embedded derivatives.

Hedge accounting

At 31 December 2018 and at 31 December 2017 none of the Group's outstanding external forward foreign exchange contracts had been designated as hedging instruments and as a result there was no movement in the hedging reserve.

Embedded derivatives

The Group regularly enters into multi-currency contracts from which the cash flows may lead to embedded foreign exchange derivatives in non-financial host contracts, carried at fair value through profit or loss. The fair values of the embedded derivatives at 31 December 2018 amounted to $3.6 million related to financial assets (2017: $41.8 million) and $2.8 million related to financial liabilities (2017: $20.6 million). The effects on the Consolidated Income Statement were reflected in net foreign currency gains and losses within other gains and losses.

Interest rate risk management

The Group places surplus funds in the money markets to generate an investment return for a range of maturities (generally less than six months) ensuring a high level of liquidity and reducing the credit risk associated with the deposits. Changes in the interest rates associated with these deposits will impact the interest income generated.

Interest rate sensitivity analysis

At 31 December 2018, the Group had significant cash deposits and borrowings at USD LIBOR plus a margin. A 1% increase in interest rates would not have a significant impact on the Group's finance cost or income due to the net cash position the Group held throughout these periods.

Credit risk management

Credit risk refers to the risk that a customer or counterparty to a financial instrument will default on its contractual obligations and fail to make payment as obligations fall due resulting in financial loss to the Group. Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative financial instruments.

The maximum exposure of the Group to credit-related loss of financial instruments is the aggregate of the carrying amount of the financial assets as summarised on page 97.

Financial instruments and cash deposits

The Group has adopted a policy of transacting with creditworthy financial institutions as a means of mitigating the risk of financial loss from defaults. Credit ratings are supplied by independent rating agencies. The Group's exposure and the credit ratings of its counterparties are continually monitored and the aggregate value of transactions undertaken is distributed amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved on an annual basis and are monitored daily. The Group uses credit ratings as well as other publicly available financial information and its own trading records to rate its major counterparties.

The Group considers that its cash and cash equivalents have low credit risk based on external credit ratings of the counterparties. Where applicable impairment of cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's credit risk management practices are designed to address the risk characteristics of the key classes of financial asset. Credit exposure is controlled by counterparty limits that are reviewed and approved on an annual basis and are monitored daily. In respect of its clients and vendors, the Group uses credit ratings as well as other publicly available financial information and its own trading records to rate its major counterparties. The assessment of the Group's exposure to credit risk includes consideration of historical and forward-looking information regarding both the financial position and performance of the counterparty and the general macro-economic environment.

Expected credit loss assessment for financial assets

Allowances are recognised as required under the IFRS 9 impairment model and continue to be carried until there are indicators that there is no reasonable expectation of recovery.

For construction contract assets and trade and other receivables which do not contain a significant financing component, the Group applies the simplified approach. This approach requires the allowance for expected credit losses to be recognised at an amount equal to lifetime expected credit losses. For other debt financial assets the Group applies the general approach to providing for expected credit losses as prescribed by IFRS 9, which permits for the recognition of an allowance for the estimated expected loss resulting from default in the subsequent 12-month period. Exposure to credit loss is monitored on a continual basis and, where material, the allowance for expected credit losses is adjusted to reflect the risk of default during the lifetime of the financial asset should a significant change in credit risk be identified.

In determining expected credit losses, financial assets with the same counterparty are grouped and where appropriate expected credit losses are measured on a collective basis. In determining the level of allowance the Group uses an internal credit risk grading framework and applies judgement based on a variety of data in order to predict the likely risk of default. The Group defines default as full or partial non-payment of contractual cash flows. The determination of expected credit losses is derived from historical and forward-looking information which includes external ratings, audited financial statements and other publically available information about customers. Determination of the level of expected credit loss incorporates a review of factors which can be indicative of default, including the nature of the counterparty (i.e. national oil and gas companies, international oil and gas companies or independent oil and gas companies) and the individual industry sectors in which the counterparty operates.

The majority of the Group's financial assets are expected to have a low risk of default. A review of the historical occurrence of credit losses indicates that credit losses are insignificant due to the size of the Group's clients and the nature of the services provided. The outlook for the oil and gas industry is not expected to result in a significant change in the Group's exposure to credit losses. As lifetime expected credit losses are not expected to be significant the Group has opted not to adopt the practical expedient available under IFRS 9 to utilise a provision matrix for the recognition of lifetime expected credit losses on trade receivables. Allowances are calculated on a case-by-case basis based on the credit risk applicable to individual counterparties.

Exposure to credit risk is continually monitored in order to identify financial assets which experience a significant change in credit risk. In assessing for significant changes in credit risk the Group makes use of operational simplifications permitted by IFRS 9. The Group considers a financial asset to have low credit risk if the asset has a low risk of default; the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term; and no adverse changes in economic or business conditions have been identified which in the longer term may, but will not necessarily, reduce the ability of the counterparty to fulfil its contractual cash flow obligations. Where a financial asset becomes more than 30 days past its due date additional procedures are performed to determine the reasons for non-payment in order to identify if a change in the exposure to credit risk has occurred.

Should a significant change in the exposure to credit risk be identified the allowance for expected credit losses is increased to reflect the risk of expected default in the lifetime of the financial asset. The Group continually monitors for indications that a financial asset has become credit impaired with an allowance for credit impairment recognised when the loss is incurred. Where a financial asset becomes more than 90 days past its due date additional procedures are performed to determine the reasons for non-payment in order to identify if the asset has become credit impaired.

The Group considers an asset to be credit impaired once there is evidence that a loss has been incurred. In addition to recognising an allowance for expected credit loss, the Group monitors for the occurrence of events that have a detrimental impact on the recoverability of financial assets. Evidence of credit impairment includes, but is not limited to, indications of significant financial difficulty of the counterparty, a breach of contract or failure to adhere to payment terms, bankruptcy or financial reorganisation of a counterparty or the disappearance of an active market for the financial asset.

A financial asset is only written off when there is no reasonable expectation of recovery.

32. Financial instruments continued

For trade receivables, the Group's current credit risk grading framework comprises the following categories:

Category	Description	Response
Performing	The counterparty has a low risk of default. No balances are aged greater than 30 days past due.	An allowance for lifetime ECLs is recognised where the impact is determined to be material.
Monitored	The counterparty has a low risk of default. Balances aged greater than 30 days past due have arisen due to ongoing commercial discussions associated with the close out of contractual requirements and are not considered to be indicative of an increased risk of default.	The allowance for lifetime ECLs is increased where the impact is determined to be material.
In default	Balances are greater than 90 days past due with the ageing not being as a result of ongoing commercial discussions associated with the close out of contractual commitments, or there is evidence indicating that the counterparty is in severe financial difficulty and collection of amounts due is improbable.	The asset is considered to be credit impaired and an allowance for the estimated incurred loss is recognised where material.
Written off	There is evidence that the counterparty is in severe financial difficulty and the Group has no realistic prospect of recovery of balances.	The gross receivable and associated allowance are both derecognised.

The credit risk grades disclosed above are consistent with the information used by key management personnel for credit risk management purposes. Specific information regarding the counterparty together with past-due information and forward-looking information is utilised in order to determine the appropriate credit grading category. At 31 December 2018 the trade receivables balances per the grading framework were as follows:

As at (in $ millions)	**2018 31 Dec**
Performing	**379.4**
Monitored	**88.7**
In default	**18.9**
Gross carrying amount	**487.0**

In addition to the credit risk grading framework for trade receivables the Group uses past-due information to assess significant increases in credit risk for all financial assets. Information of the ageing of material financial assets is included within subsequent disclosures.

Other financial assets, including amounts due from associates and joint ventures, are not subject to the Group's credit risk grading framework. The Group assesses the credit risk of these financial assets on a case-by-case basis using all relevant available historical and forward-looking information. Allowances for expected credit losses or credit impairment are recorded when required.

Trade receivables

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Gross carrying amount	**487.0**	401.2
Provision for impairment of receivables	**–**	(19.4)
Allowance for expected credit losses	**(0.8)**	–
Allowance for credit impairments	**(18.9)**	–
Net carrying amount	**467.3**	381.8

The table below provides an analysis of the age of trade receivables at the balance sheet date. This includes details of those trade receivables which are past due as at the end of the reporting period, but not impaired, and trade receivables which are individually determined to be impaired as at the end of the reporting period.

At 31 December 2018

(in $ millions)	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Gross carrying amount	**389.9**	**5.6**	**24.5**	**67.0**	**487.0**
Allowance for expected credit losses	**(0.6)**	**–**	**–**	**(0.2)**	**(0.8)**
Allowance for incurred credit impairments	**(7.6)**	**–**	**(0.5)**	**(10.8)**	**(18.9)**
Net carrying amount	**381.7**	**5.6**	**24.0**	**56.0**	**467.3**

The movement in the allowance for expected credit losses in respect of trade receivables during the year was as follows:

(in $ millions)	Total
Allowance for expected credit losses	
Balance at 1 January 2018	**–**
Adjustment on implementation of IFRS 9	**(0.7)**
Increase in allowance recognised in profit or loss	**(0.1)**
Balance at 31 December 2018	**(0.8)**

The allowance for expected credit losses increased during the year due to fluctuations in the mix of customers, the size of receivables due and the percentage allowances applied. The movement in the allowances for credit impairment in respect of trade receivables during the year was as follows:

(in $ millions)	Total
Allowance for credit impairment	
Balance at 1 January 2018	**–**
Previous allowance recognised in accordance with IAS 39	**(19.4)**
Allowance recognised on acquisition of businesses	**(0.2)**
Increase in allowance recognised in profit or loss	**(11.4)**
Written off during the year	**10.6**
Unused amounts reversed	**1.1**
Exchange differences	**0.4**
Balance at 31 December 2018	**(18.9)**

On implementation the previous provision recognised in accordance with IAS 39 was reassessed against the requirements of IFRS 9. Management concluded that no adjustment was required.

Amounts due from associates and joint ventures

As at (in $ millions)	2018 31 Dec	2017 31 Dec(a)
Gross carrying amount	**21.5**	26.5
Provision for impairment of receivables	**–**	(13.1)
Allowance for incurred credit impairments	**(2.2)**	–
Net carrying amount	**19.3**	13.4

(a) 2017 comparatives are presented in accordance with IAS 39.

The table below provides an analysis of the age of amounts due from associates and joint ventures at the balance sheet date. This includes details of those associates and joint ventures which are past due as at the end of the reporting period, but not impaired, and associates and joint ventures which are individually determined to be impaired at the end of the reporting period.

At 31 December 2018

(in $ millions)	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Gross carrying amount	**0.9**	**0.2**	**3.2**	**17.2**	**21.5**
Allowance for credit impairments	**(0.1)**	**–**	**–**	**(2.1)**	**(2.2)**
Net carrying amount	**0.8**	**0.2**	**3.2**	**15.1**	**19.3**

32. Financial instruments continued

The movement in the allowance in respect of amounts due from associates and joint ventures during the year was as follows:

(in $ millions)	Total
Allowance for credit impairments	
Balance at 1 January 2018	**–**
Previous allowance recognised in accordance with IAS 39	**(13.1)**
Unused amounts reversed	**10.8**
Exchange differences	**0.1**
Balance at 31 December 2018	**(2.2)**

On implementation the previous provision recognised in accordance with IAS 39 was reassessed against the requirements of IFRS 9. The Group concluded that no adjustment was required.

The allowance for credit impairment decreased during the year primarily due to the settlement of outstanding amounts due from the SIMAR joint venture prior to its liquidation on 6 September 2018.

At 1 January 2018 and at 31 December 2018 the allowance for expected credit losses recognised in connection with amounts due from associates and joint ventures was $nil.

Other financial assets at amortised cost

An analysis of the age of other financial assets at the balance sheet date has not been provided on the grounds of materiality. Other financial assets are typically non-standard, or non-recurring, and are monitored on an asset-by-asset basis. Ageing is not necessarily reflective of credit risk.

At 1 January 2018 and at 31 December 2018 the allowances for expected credit losses and credit impairment recognised in connection with other financial assets at amortised cost were $nil.

Concentration of credit risk

Credit risk is primarily associated with trade receivables. Net trade receivables (Note 19 'Trade and other receivables') arise from a large number of clients, dispersed geographically. Continual credit evaluation is performed on the recoverability of trade receivables. The following table classifies outstanding balances into three categories:

As at	**2018 31 Dec Category percentage**	2017 31 Dec Category percentage
National oil and gas companies	**27%**	25%
International oil and gas companies	**37%**	22%
Independent oil, gas and energy companies	**36%**	53%
Total	**100%**	100%

National oil and gas companies are either partially or fully owned by or directly controlled by the government of their respective country of incorporation. Both international and independent oil and gas companies are mainly publicly or privately owned. International oil and gas companies are generally larger in size and scope than independent oil, gas and energy companies and have midstream and downstream activities supplementing their upstream operations.

During the year ended 31 December 2018, four clients (2017: three clients) contributed individually to more than 10% of the Group's revenue. The revenue from these clients was $2.1 billion or 52% of total Group revenue (2017: $2.1 billion or 52%).

The five largest receivables balances by client are shown below:

As at (in $ millions)	**31 Dec 2018**
Client A	**89.3**
Client B	**82.4**
Client C	**54.5**
Client D	**23.1**
Client E	**19.5**

As at (in $ millions)	31 Dec 2017
Client A	71.1
Client B	53.7
Client C	53.3
Client D	41.0
Client E	36.4

The client mix for outstanding accounts receivable balances in 2018 is not the same as 2017. The Group does not have any significant credit exposure to any single counterparty at 31 December 2018. The Group defines counterparties as having similar characteristics if they are related entities.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are primarily banks with high credit ratings assigned by international credit-rating agencies. At 31 December 2018, 31% (2017: 32%) of cash was held at counterparties with a credit rating lower than 'upper-medium grade' classification.

Liquidity risk management

The Group has a framework for the management of short, medium and long-term funding and liquidity management requirements. The Group continually monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities. Liquidity risk is managed by maintaining adequate cash and cash equivalent balances and by ensuring available borrowing facilities are in place. Included in Note 26 'Borrowings' are details of the undrawn facilities that the Group has at its disposal.

Liquidity tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been prepared based on the undiscounted cash flows relating to financial liabilities based on the earliest date on which the payment can be required. Principal cash flows are as follows:

At 31 December 2018

(in $ millions)	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Total**
Borrowings	**6.1**	**6.1**	**12.4**	**233.6**	**258.2**
Trade payables	**174.6**	**13.5**	**0.2**	**0.1**	**188.4**
Current amounts due to associates and joint ventures	**10.7**	**–**	**–**	**–**	**10.7**
Loan due to associates and joint ventures	**–**	**–**	**–**	**1.8**	**1.8**
Total	**191.4**	**19.6**	**12.6**	**235.5**	**459.1**

At 31 December 2017

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Borrowings	6.1	6.1	12.3	258.2	282.7
Trade payables	134.6	8.0	–	–	142.6
Current amounts due from associates and joint ventures	11.4	–	–	–	11.4
Loan due to associates and joint ventures	–	–	–	1.8	1.8
Total	152.1	14.1	12.3	260.0	438.5

The following table details the Group's liquidity profile for its derivative financial instruments. The table has been prepared based on the undiscounted net cash payments and receipts on the derivative instruments that settle on a net basis and the undiscounted gross payments and receipts on those derivative financial instruments that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the balance sheet date.

At 31 December 2018

(in $ millions)	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Total**
Net settled:					
Embedded derivatives	**–**	**0.9**	**1.3**	**0.6**	**2.8**
Gross settled:					
Foreign exchange forward contract payments	**80.7**	**6.4**	**35.0**	**52.5**	**174.6**
Foreign exchange forward contract receipts	**(80.5)**	**(6.1)**	**(33.6)**	**(50.1)**	**(170.3)**
Total	**0.2**	**1.2**	**2.7**	**3.0**	**7.1**

At 31 December 2017

(in $ millions)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total
Net settled:					
Embedded derivatives	–	4.9	15.2	0.5	20.6
Gross settled:					
Foreign exchange forward contract payments	145.2	57.7	10.4	–	213.3
Foreign exchange forward contract receipts	(142.4)	(57.2)	(9.5)	–	(209.1)
Total	2.8	5.4	16.1	0.5	24.8

32. Financial instruments continued

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders of the parent company.

The capital structure of the Group consists of debt, which includes borrowings disclosed in Note 26 'Borrowings', cash and cash equivalents disclosed in Note 22 'Cash and cash equivalents' and equity attributable to shareholders of the parent company, comprising issued share capital, paid in surplus, reserves and retained earnings.

The Group monitors its capital structure using a debt service ratio of net debt to Adjusted EBITDA. Effective 1 January 2019, the debt service ratio has been revised following the implementation of IFRS 16; the ratio now calculates net debt as the principal value of borrowings, lease liabilities less cash and cash equivalents. During 2018 net debt consisted of the principal value of borrowings plus current year operating lease payments adjusted by a multiplier of six, less cash and cash equivalents.

Reconciliation of movements in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows are classified in the Consolidated Cash Flow Statement as cash flows from financing activities.

	Liabilities			Equity			Other	Total
(in $ millions)	Other borrowings	Contingent consideration	Dividends payable to shareholders	Dividends payable to non-controlling interests	Treasury shares	Other equity		
Balance at 1 January 2018	**282.7**	**20.0**	**–**	**7.6**	**(19.7)**	**–**	**(2.8)**	**287.8**
Financing cash flows								
Interest paid	(10.6)	–	–	–	–	–	(3.3)	(13.9)
Repayment of borrowings	(24.6)	–	–	–	–	–	–	(24.6)
Proceeds from reallocation of common shares	–	–	–	–	–	0.4	–	0.4
Cost of share repurchases	–	–	–	–	(92.9)	–	–	(92.9)
Dividends paid to shareholders of the parent company	–	–	(204.3)	–	–	–	–	(204.3)
Total financing cash flows	**(35.2)**	**–**	**(204.3)**	**–**	**(92.9)**	**0.4**	**(3.3)**	**(335.3)**
Non-cash changes								
Acquisition of businesses	–	32.3	–	–	–	–	–	32.3
Dividends declared	–	–	204.3	–	–	–	–	204.3
Shares reallocated relating to share-based payments	–	–	–	–	17.6	–	–	17.6
Loss on reallocation of treasury shares	–	–	–	–	–	17.2	–	17.2
Allocated to retained earnings	–	–	–	–	–	(17.6)	–	(17.6)
Interest charges	10.7	–	–	–	–	–	3.2	13.9
Fair value adjustments	–	(3.6)	–	–	–	–	–	(3.6)
Exchange differences	–	(1.0)	–	–	–	–	–	(1.0)
Total non-cash changes	**10.7**	**27.7**	**204.3**	**–**	**17.6**	**(0.4)**	**3.2**	**263.1**
Balance at 31 December 2018	**258.2**	**47.7**	**–**	**7.6**	**(95.0)**	**–**	**(2.9)**	**215.6**

(in $ millions)	Liabilities: Convertible bonds	Liabilities: Other borrowing	Liabilities: Contingent consideration	Liabilities: Interest rate swaps used for hedging	Equity: Dividends payable to shareholders	Equity: Dividends payable to non-controlling interests Re-presented[(a)]	Equity: Other equity	Other	Total
Balance at 1 January 2017	**427.3**	**–**	**11.5**	**–**	**–**	**7.4**	**–**	**–**	**446.2**
Financing cash flows									
Interest paid	(4.0)	(11.9)	–	–	–	–	–	–	(15.9)
Proceeds from borrowings	–	301.2	–	–	–	–	–	–	301.2
Repayment of borrowings	–	(252.9)	–	–	–	–	–	–	(252.9)
Repayment of derivative financial instruments	–	–	–	(8.0)	–	–	–	–	(8.0)
Repurchase of convertible bonds	(77.3)	–	–	–	–	–	–	–	(77.3)
Redemption of convertible bonds	(358.0)	–	–	–	–	–	–	–	(358.0)
Proceeds from reallocation of common shares	–	–	–	–	–	–	0.5	–	0.5
Dividends paid to shareholders of the parent company	–	–	–	–	(191.1)	–	–	–	(191.1)
Dividends paid to non-controlling interests	–	–	–	–	–	(0.5)	–	–	(0.5)
Total financing cash flows	**(439.3)**	**36.4**	**–**	**(8.0)**	**(191.1)**	**(0.5)**	**0.5**	**–**	**(602.0)**
Non-cash changes									
Acquisition of businesses	–	226.5	7.6	9.1	–	–	–	–	243.2
Dividends declared	–	–	–	–	191.1	–	–	–	191.1
Shares reallocated relating to share-based payments	–	–	–	–	–	–	(11.8)	–	(11.8)
Loss on reallocation of treasury shares	–	–	–	–	–	–	11.3	–	11.3
Interest charges	11.7	12.1	–	–	–	–	–	(2.8)	21.0
Fair value adjustments	0.3	2.3	0.9	(1.1)	–	–	–	–	2.4
Exchange differences	–	5.4	–	–	–	0.7	–	–	6.1
Total non-cash changes	**12.0**	**246.3**	**8.5**	**8.0**	**191.1**	**0.7**	**(0.5)**	**(2.8)**	**463.3**
Balance at 31 December 2017	**–**	**282.7**	**20.0**	**–**	**–**	**7.6**	**–**	**(2.8)**	**307.5**

(a) Balances have been re-presented to include dividends payable to non-controlling interests.

Fair value measurement

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

As at (in $ millions)	**2018 31 Dec Level 1**	**2018 31 Dec Level 2**	**2018 31 Dec Level 3**	2017 31 Dec Level 1	2017 31 Dec Level 2	2017 31 Dec Level 3
Recurring fair value measurements						
Financial assets:						
Financial assets at fair value through profit or loss – derivative instruments	**–**	**7.6**	**–**	–	0.9	–
Financial assets at fair value through profit or loss – embedded derivatives	**–**	**3.6**	**–**	–	41.8	–
Other financial assets	**15.9**	**–**	**–**	–	–	–
Financial liabilities:						
Financial liabilities at fair value through profit or loss – derivative instruments	**–**	**(4.3)**	**–**	–	(4.2)	–
Financial liabilities at fair value through profit or loss – embedded derivatives	**–**	**(2.8)**	**–**	–	(20.6)	–
Contingent consideration (Note 29)	**–**	**–**	**(47.7)**	–	–	(20.0)

During the year ended 31 December 2018 there were no transfers between levels of the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy from the date of the event or change in circumstance that caused the transfer.

32. Financial instruments continued

Recurring fair value measurements

Financial assets and financial liabilities

The fair values for financial assets and financial liabilities which are remeasured to fair value on a recurring basis are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- the fair value of other financial assets classified as current assets, which includes quoted securities, is determined using quoted prices.
- the fair value of contingent consideration is determined based on current expectations of the achievement of specific targets and milestones calculated using the discounted cash flow method and unobservable inputs. Quantitative information about the significant unobservable inputs used in the fair value measurement and sensitivities to changes in these unobservable inputs are as disclosed below:

(in $ millions)	Balance at 1 January 2018	Fair value adjustments	Acquisition of businesses	Exchange differences	Balance at 31 December 2018
Contingent consideration	**20.0**	**(3.6)**	**32.3**	**(1.0)**	**47.7**

Significant inputs to the fair value of contingent consideration following a business combination have included the assumed probability of the achievement of operational targets, technical milestones and vessel days. A significant increase or decrease in the assumed probability of achieving these would result in a higher or lower fair value of the contingent consideration liability, while a significant increase or decrease in the discount rate would result in a lower or higher fair value of the contingent consideration liability. Gains or losses for the year are recorded in the Consolidated Income Statement within ‘Other gains and losses’ as disclosed within Note 7 ‘Other gains and losses’.

- The fair values of foreign exchange derivative instruments and embedded derivatives are calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contract. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivative financial instruments.

Non-recurring fair value measurements

Assumptions used in determining fair value of financial assets and financial liabilities which are not remeasured to fair value on a recurring basis are as follows:

Receivables and payables

The fair value of receivables and payables is based on their carrying amount which is representative of contractual amounts due and, where appropriate, incorporates expectations about future expected credit losses.

Financial investments which are strategic in nature

Other financial assets which are classified as non-current include equity investments in unlisted companies which are strategic in nature. The Group has concluded that 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 continue to be carried at cost as, in each case, cost is considered to represent the best estimate of fair value of each investment within a range of possible outcomes.

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 data (unobservable inputs).

33. Related party transactions

Key management personnel

Key management personnel include the Board of Directors and the Executive Management Team. Key management personnel at 31 December 2018 included 12 individuals (2017: 12 individuals). The remuneration of these personnel is determined by the Compensation Committee of the Board of Directors of Subsea 7 S.A.

Non-executive Directors

Details of fees paid to Non-executive Directors for the year ended 31 December 2018 are set out below:

Name	Annual fee $	Member of Audit Committee $	2018 31 Dec $	2017 31 Dec $
Kristian Siem	**200,000**	**–**	**–**[(a)]	–[(a)]
Sir Peter Mason KBE (retired 17 April 2018)	**125,000**	**–**	**36,250**	125,000
Eystein Eriksrud	**105,000**	**6,000**	**111,000**	111,000
Dod Fraser	**105,000**	**14,000**	**119,000**	119,000
Robert Long (retired 17 April 2018)	**105,000**	**6,000**	**32,190**	111,000
Allen Stevens	**105,000**	**–**	**105,000**	105,000
Niels Kirk (appointed 17 April 2018)	**105,000**	**6,000**	**78,810**	–
David Mullen (appointed 17 April 2018)	**105,000**	**–**	**74,550**	–

(a) Mr Siem's fee is included within payments to Siem Industries Inc. as detailed in 'Other related party transactions' on page 111.

Shareholdings at 31 December 2018 were as follows:

Shareholdings

Name	Total owned shares
Kristian Siem[(a)]	**–**
Eystein Eriksrud[(b)]	**3,100**
Dod Fraser	**4,000**
Allen Stevens	**10,650**
Niels Kirk	**–**
David Mullen	**–**

(a) At 31 December 2018, Siem Industries Inc. which is a company controlled through trusts where Mr Siem and certain members of his family are potential beneficiaries, owned 69,731,931 shares, representing 21.3% of total fully paid and issued common shares of the Company.

(b) Mr Eriksrud is Deputy CEO of Siem Industries Inc. which, at 31 December 2018, owned 69,731,931 shares representing 21.3% of total fully paid and issued common shares of the Company.

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33. Related party transactions continued

Key management

The remuneration of the Executive Management Team during the year was as follows:

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Salaries and other short-term employee benefits	**7.8**	7.8
Share-based payments	**0.9**	1.1
Post-employment benefits	**0.1**	0.1
Total	**8.8**	9.0

The compensation of the Chief Executive Officer ('CEO') for the year was $2.5 million (2017: $2.5 million) and included base salary, bonus and benefits-in-kind. This amount excludes the IFRS 2 'Share-based Payments' charge for any incentive plans of which the CEO is a member.

Performance shares outstanding and shareholdings at 31 December 2018 were as follows:

Shares and performance shares

Name	Total performance shares[a]	Total owned shares
Jean Cahuzac	215,373	128,804
Ricardo Rosa	128,263	20,925
John Evans	158,929	55,046
Nathalie Louys	79,514	14,751
Keith Tipson	81,442	36,050
Stuart Fitzgerald	90,977	7,945

(a) Total performance shares held represent the maximum award assuming all conditions are met.

Transactions with key management personnel

During the year, key management personnel were awarded the rights to 220,000 performance shares under the 2018 Long-term Incentive Plan. This plan superseded the 2013 Long-term Incentive Plan which awarded 207,000 performance in 2017. Refer to Note 34 'Share-based payments' for details of the plan.

Transactions with associates and joint ventures

The Consolidated Balance Sheet includes:

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Non-current receivables due from associates and joint ventures (Note 17)	**7.3**	6.7
Non-current payables due to associates and joint ventures (Note 27)	**(1.8)**	(1.8)
Trade receivables due from associates and joint ventures (Note 19)	**12.0**	6.7
Trade payables due to associates and joint ventures (Note 28)	**(10.7)**	(11.4)
Net receivables due from associates and joint ventures	**6.8**	0.2

At 31 December 2018 trade receivables due from associates and joint ventures are shown net of allowance for credit impairment of $2.2 million. At 31 December 2017 trade receivables due from associates and joint ventures are shown net of provisions for impairment of $13.1 million.

During the year, the Group provided services to associates and joint ventures amounting to $1.2 million (2017: $6.6 million) and purchased goods and services from associates and joint ventures amounting to $30.9 million (2017: $178.8 million).

At 31 December 2018, the Group had provided long-term loans to joint ventures amounting to $7.3 million (2017: $6.7 million). Working capital funding of associates and joint ventures is included within trade receivables due from associates and joint ventures.

Guarantee arrangements with joint ventures are shown within Note 26 'Borrowings'.

Other related party transactions

During the year the Group participated in related party transactions, all of which were conducted on an arm's length basis.

The Group is an associate of Siem Industries Inc. and is equity accounted for within Siem Industries Inc.'s Consolidated Financial Statements. Payments were made to Siem Industries Inc. in relation to the services provided by Mr Siem totalling $0.2 million (2017: $0.2 million). Dividends totalling $43.7 million (2017: $40.9 million) were paid to Siem Industries Inc.

Purchases by the Group from subsidiaries of Siem Industries Inc. including vessel charter costs, provision of crew and associated services, totalling $1.3 million (2017: $nil), were made during the year.

Siem Offshore Inc. is an associate of Siem Industries Inc, Mr Eriksrud is its Chairman and Mr Siem is a member of the Board of Directors. Purchases by the Group from subsidiaries of Siem Offshore Inc. including vessel charter costs, provision of crew and associated services, totalling $16.0 million (2017: $21.5 million), were made during the year.

Revenue to the Group from subsidiaries of Siem Offshore Inc. including ROV and survey services, totalling $0.4 million were made during the year (2017: $nil).

The Group provides rented office accommodation to Siem Offshore do Brasil S.A., Siem Offshore Real Estate GmbH and SOC Equipment & Personnel Services BV which are ultimately controlled by Siem Industries Inc., total rental income for 2018 was $0.4 million (2017: $0.5 million).

The Group provides rented office accommodation to Siem Shipping UK Limited, in which Mr Siem holds a controlling share. Total rental income for 2018 was $0.3 million (2017: $0.1 million).

During 2018, the Group rented office accommodation from Siem Europe Properties S.à r.l., a company ultimately controlled by Siem Industries Inc. Total rental cost for 2018 was less than $0.1 million (2017: less than $0.1 million).

At 31 December 2018, the Group had outstanding balances payable to Siem Europe Properties S.à r.l., Siem Offshore AS, Siem Offshore Inc., Siem Offshore Real Estate GmbH and Siem Offshore Redari AS of $0.1 million (2017: $nil).

At 31 December 2018, the Group had outstanding balances receivable from Siem Offshore US Holding AS, Siem AHTS Pool Australia PTY Ltd, Siem Offshore AS, Siem Offshore do Brasil SA, Siem Offshore Inc., Siem Offshore Redari AS and Siem Shipping UK Limited of $0.6 million (2017: $0.3 million).

On 10 April 2018, the group acquired Seaway Offshore Cables GmbH (formerly Siem Offshore Contractors GmbH), its UK subsidiary, the inter-array cable lay vessel, *Seaway Aimery* (formerly *Siem Aimery)*, and the support vessel, *Seaway Moxie* (formerly *Siem Moxie).* Seaway Offshore Cables GmbH was ultimately controlled by Siem Offshore Inc. until 10 April 2018 when it was acquired by the Group and became a wholly-owned subsidiary of the Group. The vessels, *Seaway Aimery* and *Seaway Moxie*, were purchased from Siem Offshore Rederi AS, which is a wholly-owned subsidiary of Siem Offshore Inc. Details of the business combination are included within Note 12 'Business combinations'. During the period from 1 January 2018 to 10 April 2018 the Group made purchases totalling $0.9 million (2017: $26.2 million), and provided rental accommodation to Seaway Offshore Cables GmbH. Revenue to the Group from Seaway Offshore Cables GmbH during the period from 1 January 2018 to 10 April 2018 totalled $0.2 million (2017: $nil).

34. Share-based payments

The Group operated two equity-settled share-based payment schemes during 2018.

The following table summarises the compensation expense recognised in the Consolidated Income Statement during the year:

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Expense arising from equity-settled share-based payment transactions:		
2009 Long-term Incentive Plan	**–**	0.5
2013 Long-term Incentive Plan	**4.5**	5.5
2018 Long-term Incentive Plan	**0.4**	–
Total	**4.9**	6.0

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34. Share-based payments continued
Equity-settled share-based payment schemes

2013 Long-term Incentive Plan
The 2013 Long-term Incentive Plan (2013 LTIP) was approved by the Company's shareholders at the Annual General Meeting on 28 June 2013. The 2013 LTIP had a five-year term with awards being made annually until 2017.

The 2013 LTIP provided for conditional awards of shares based upon performance conditions over a performance period of three years. Performance conditions were based on two measures: relative Total Shareholder Return (TSR) against a specified comparator group of companies and the level of Return on Average Invested Capital (ROAIC) achieved. Both performance conditions were determined over a three-year period.

During 2018, no grants (2017: 1,119,000) of shares were made under the terms of the 2013 LTIP. On 1 October 2018, in accordance with the terms of the 2013 LTIP, shares totalling 738,709 (2017: 635,955) were unconditionally transferred to participants.

2018 Long-term Incentive Plan
The 2018 Long-term Incentive Plan (2018 LTIP) was approved by the Company's shareholders at the Annual General Meeting on 17 April 2018. The 2018 LTIP has a five-year term with awards being made annually. The aggregate number of shares which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital on 1 January of that calendar year. The total number of shares that may be delivered pursuant to awards under the plan shall not exceed 11,500,000. Grants are determined by the Compensation Committee of the Subsea 7 S.A. Board of Directors, which is responsible for operating and administering the plan.

The 2018 LTIP is an essential component of the Group's reward strategy, and was designed to align the interests of participants with those of Subsea 7's shareholders, and enables participants to share in the success of the Group. The 2018 LTIP provides for conditional awards of shares based upon performance conditions over a performance period of at least three years.

Performance conditions are based on two measures: relative Total Shareholder Return (TSR) against a specified comparator group of companies and the level of Return on Average Invested Capital (ROAIC) achieved. Both performance conditions are determined over a three-year period.

During 2018, initial grants comprising 1,227,000 conditional awards of shares were made under the terms of the 2018 LTIP, 797,550 awards are subject to relative TSR performance measures and 429,450 are subject to ROAIC performance measures.

TSR based awards
The Group will have to achieve a TSR ranking above the median for any awards to vest. If the ranked TSR position of Subsea 7 during the three-year period, as converted to a percentage, is equal to 50%, 20% of the share award will vest. If the actual ranked TSR position of Subsea 7 is greater than 50% and below 90%, the vesting of the share award between 20% and 65% is determined by linear interpolation. The maximum award of 65% would only vest if the Group achieved top decile TSR ranking.

ROAIC based awards
ROAIC will be calculated for each of the three years of the performance period on a quarterly basis. If the average ROAIC achieved by the Group during the performance period is greater than 9% but less than 11%, vesting between 5% and 15% shall be determined by linear interpolation. If the actual ROAIC achieved by the Group during the performance period is greater than 11% but less than 14%, vesting between 15% and 35% shall be determined by linear interpolation. The maximum award of 35% would only vest if the Group achieved average ROAIC of 14% or greater.

Under the terms of the awards LTIP participants are not entitled to receive dividend equivalent payments.

Approximately 127 senior managers and key employees participate in the LTIP schemes. Individual award caps are in place such that no senior executive or other employee may be granted shares under the LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of their annual base salary at the date of the award. Additionally, a holding requirement for senior executives applies where senior executives must hold 50% of all awards that vest until they have built up a shareholding with a fair value of 150% of their annual base salary which must be maintained throughout their tenure.

The IFRS 2 'Share-based Payments' fair value of each performance share granted under the 2013 and 2018 LTIP is estimated as of the grant date using a Monte Carlo simulation model with weighted average assumptions as follows:

For the year ended	**2018 31 Dec**	2017 31 Dec
Weighted average share price at grant date (in $)	**15.17**	16.56
TSR performance – Weighted average fair value at grant date (in $)	**7.94**	9.10
ROAIC performance – Weighted average fair value at grant date (in $)	**14.40**	15.73
Expected volatility	**39%**	43%
Risk free rate	**1.32%**	0.83%
Dividend yield	**1.30%**	1.30%

The expected share price volatility over the performance period is estimated from the Company's historical share price volatility. The award fair values were adjusted to recognise that participants are not entitled to receive dividend equivalent payments.

The non-market ROAIC performance condition is not incorporated into the grant date fair value of the ROAIC based awards. The value of each award will be adjusted at every reporting date to reflect the Group's current expectation of the number of performance shares which will vest under the non-market ROAIC performance condition.

Upon vesting, Subsea 7 will withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, in cash, to the relevant tax authority on the employee's behalf. In 2018, three plans vested under the LTIP 2013 scheme, and the total estimated withholding tax to be transferred to relevant tax authorities was $3.6 million. Of this total, $0.5 million was in relation to employee social security contributions and $3.1 million was in relation to income tax.

2003 Plan

The Group operated a share option plan which was approved in April 2003 (the 2003 Plan). This plan included an additional option plan for key employees resident in France as a sub-plan (the 'French Plan'), and additional options which were granted under the Senior Management Incentive Plan. Options were awarded at the discretion of the Compensation Committee to Directors and key employees of Subsea 7 S.A. and its subsidiaries.

Options under the 2003 Plan (and therefore also under the French Plan) were exercisable for periods of up to ten years, at an exercise price not less than the fair market value per share at the time the option is granted. All such options had vested prior to 31 December 2018. Share option exercises were satisfied by reallocating treasury shares. No further share options will be granted under the 2003 Plan or the French Plan.

Subsea 7 Inc. share option plans

As part of the Combination, the Group replaced the share options previously issued by Subsea 7 Inc. All such options have vested with the final options awarded under the plan expiring prior to 31 December 2018.

Share options

Option activity for the 2003 Plan and Subsea 7 Inc. share option plans was as follows:

	Number of options 2018	**Weighted average exercise price in $ 2018**	Number of options 2017	Weighted average exercise price in $ 2017
Outstanding at year beginning	**438,289**	**17.82**	527,307	16.80
Exercised	**(28,853)**	**14.08**	(44,213)	13.86
Expired	**(409,436)**	**18.22**	(44,805)	16.65
Outstanding at year end	**–**	**–**	438,289	17.82
Exercisable at the end of the year	**–**	**–**	438,289	17.82

The weighted average market price at exercise date of options exercised during the year ended 31 December 2018 was $14.56.

There were no share options outstanding at 31 December 2018.

35. Retirement benefit obligations

The Group operates both defined contribution and defined benefit pension plans.

The Group's contributions under the defined contribution pension plans are determined as a percentage of individual employee's gross salaries. The expense relating to these plans for the year was $34.4 million (2017: $31.7 million).

Defined benefit plans

The Group operates both funded and unfunded defined benefit pension plans.

France

The defined benefit plan for France is called the *indemnités de fin de carrière* (retirement indemnity plan) and is pursuant to applicable French legislation and labour agreements in force in the industry. A lump-sum payment is made to employees upon retirement based on length of service, employment category and the employee's final salary. The obligation is unfunded and uninsured, as is standard practice in France. Since the retirement indemnity plan is based upon specific lengths of service, categories and values set by French legislation and collective agreements there is no specific trust or internal governance in place for this plan.

Norway

There are two Norwegian defined benefit pension plans which are known as the office (onshore) plan and the sailor plan.

The office (onshore) plan is a defined benefit scheme held with a life insurance company to provide pension benefits for the Group's employees. The scheme provides entitlement to benefits based on future service from the commencement date of the scheme. These benefits are principally dependent on an employee's pension qualifying period, salary at retirement age and the size of benefits from the National Insurance Scheme. The scheme also includes entitlement to disability, spouses and children's pensions. The retirement age under the scheme is 67 years. The office (onshore) plan is closed to new members.

The sailor plan is an established separate tariff rated pension scheme for offshore personnel. Pensions are paid upon retirement based on the employee's length of service and final salary. Under this scheme participants are entitled to receive a pension between 60-67 years of age. These are funded obligations.

Under the plans, pensions are paid upon retirement based on the employee's length of service and final salary. The plans have been established in accordance with Norwegian legislation and are separately administered funds. Due to Norwegian legislation the pension scheme must provide an annual guaranteed return on investment, and consequently, the plan assets have a bias toward bonds rather than equities. While the pension company is responsible for handling the plan according to Norwegian law, the Group is obligated to have a steering committee for the plan. The steering committee considers and makes recommendations to the Group on matters relating to the plan, including but not limited to: composition of the investment portfolio, amendments to the scheme, administration and enforcement of the scheme, transfer of funds to the Group, transfer of the scheme to another pension provider and termination of the scheme.

Netherlands

There are two Netherlands defined benefit pension plans which are known as the SHL-Seaway plan and the SHL-Crew plan. Both of these plans are for salaries up to the threshold of the Netherlands WIA (Disablement Insurance Act) and take into account the fixed deductible amount related to the Netherlands AOW (Old Age Pension). For employees whose gross yearly salary exceeds the legally determined WIA threshold a so-called 'excedent' pension arrangement applies. Accumulation of the retirement obligation asset commences through the deposit of a premium ranging between 4.5% and 17.9% depending on the age of the employee, calculated on the salary above the set WIA threshold. Half of the premium is paid by the employer. The retirement age under the plans is 67 years however this increased to 68 years on 1 January 2019. These are funded obligations which are insured with a third party and are currently in a deficit position. The Group has an obligation to ensure that the benefits under these schemes, not currently fully covered by the insurance policy, can be met.

Changes in the defined benefit obligation and fair value of plan assets

The following table provides a reconciliation of the changes in retirement benefit obligations and in the fair value of plan assets:

	Norway		Netherlands		France		Total	
(in $ millions)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Defined benefit obligation								
At year beginning	**(18.4)**	(18.2)	**(68.1)**	–	**(9.7)**	(7.5)	**(96.2)**	(25.7)
Acquisition of business	**–**	–	**–**	(53.2)	**–**	–	**–**	(53.2)
Amounts credited/(charged) to the Consolidated Income Statement:								
Service costs	**(0.4)**	(0.4)	**(5.4)**	(5.2)	**(0.7)**	(0.7)	**(6.5)**	(6.3)
Past service costs/(credits)	**–**	1.0	**–**	(0.2)	**–**	–	**–**	0.8
Interest cost	**(0.3)**	(0.4)	**(1.4)**	(1.1)	**(0.2)**	(0.1)	**(1.9)**	(1.6)
Employee taxes	**0.1**	(0.1)	**–**	–	**–**	–	**0.1**	(0.1)
Sub-total	**(0.6)**	0.1	**(6.8)**	(6.5)	**(0.9)**	(0.8)	**(8.3)**	(7.2)
Remeasurement gains/(losses) recognised in other comprehensive income:								
Actuarial changes arising from changes in demographic assumptions	**–**	–	**0.8**	–	**0.4**	–	**1.2**	–
Actuarial changes arising from changes in financial assumptions	**–**	–	**–**	1.9	**(1.4)**	(0.3)	**(1.4)**	1.6
Experience adjustments	**1.0**	(0.5)	**2.0**	0.4	**(0.5)**	(0.1)	**2.5**	(0.2)
Sub-total	**1.0**	(0.5)	**2.8**	2.3	**(1.5)**	(0.4)	**2.3**	1.4
Benefits paid	**0.9**	0.7	**0.2**	0.2	**–**	–	**1.1**	0.9
Exchange differences	**0.5**	(0.5)	**3.1**	(10.9)	**0.5**	(1.0)	**4.1**	(12.4)
At year end	**(16.6)**	(18.4)	**(68.8)**	(68.1)	**(11.6)**	(9.7)	**(97.0)**	(96.2)
Fair value of plan assets								
At year beginning	**15.3**	16.1	**50.0**	–	**–**	–	**65.3**	16.1
Acquisition of business	**–**	–	**–**	39.4	**–**	–	**–**	39.4
Amounts credited/(charged) to the Consolidated Income Statement:								
Past service credit	**–**	(0.9)	**–**	–	**–**	–	**–**	(0.9)
Interest income	**0.4**	0.3	**0.9**	0.8	**–**	–	**1.3**	1.1
Sub-total	**0.4**	(0.6)	**0.9**	0.8	**–**	–	**1.3**	0.2
Remeasurement gains/(losses) recognised in other comprehensive income:								
Return on plan assets (excluding amounts in interest income)	**0.5**	(0.9)	**(0.6)**	(1.3)	**–**	–	**(0.1)**	(2.2)
Administrative expenses	**(0.2)**	(0.2)	**–**	–	**–**	–	**(0.2)**	(0.2)
Experience adjustments	**–**	–	**1.0**	0.6	**–**	–	**1.0**	0.6
Sub-total	**0.3**	(1.1)	**0.4**	(0.7)	**–**	–	**0.7**	(1.8)
Employer and participant contributions	**0.1**	0.3	**2.8**	2.6	**–**	–	**2.9**	2.9
Benefits paid	**(0.9)**	(0.7)	**(0.2)**	(0.2)	**–**	–	**(1.1)**	(0.9)
Exchange differences	**(0.6)**	1.3	**(2.3)**	8.1	**–**	–	**(2.9)**	9.4
At year end	**14.6**	15.3	**51.6**	50.0	**–**	–	**66.2**	65.3
Net defined benefit obligation	**(2.0)**	(3.1)	**(17.2)**	(18.1)	**(11.6)**	(9.7)	**(30.8)**	(30.9)
Presented as:								
Retirement benefit assets	**0.1**	–	**–**	–	**–**	–	**0.1**	–
Retirement benefit obligations	**(2.1)**	(3.1)	**(17.2)**	(18.1)	**(11.6)**	(9.7)	**(30.9)**	(30.9)
Total	**(2.0)**	(3.1)	**(17.2)**	(18.1)	**(11.6)**	(9.7)	**(30.8)**	(30.9)

35. Retirement benefit obligations continued

The retirement benefit obligations of $30.8 million (2017: $30.9 million) for pension schemes which are in deficit in Norway, the Netherlands and France, are recognised as non-current liabilities within the Consolidated Balance Sheet.

Unfunded schemes

Included within the defined benefit obligation are amounts arising from unfunded French plans with a total obligation of $11.6 million (2017: $9.7 million).

Funded schemes

The Netherlands schemes are funded through an insurance contract based on a five-year fixed interest rate. The fair value of the Netherlands plan assets were as follows:

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Unquoted investments		
Insurance contract	**51.6**	49.9
Cash and cash equivalents	**–**	0.1
Total	**51.6**	50.0

The Norwegian schemes are funded through a separately administered investment fund. The fair value of the Norwegian plan assets were as follows:

As at (in $ millions)	**2018 31 Dec**	2017 31 Dec
Investments quoted in active markets		
Quoted equity investments	**2.3**	1.9
Unquoted investments		
Bonds	**7.9**	9.0
Property	**2.0**	2.1
Other	**2.4**	2.3
Total	**14.6**	15.3

Future cash flows

The estimated contributions expected to be paid into the French, Dutch and Norwegian plans during 2019 total $4.4 million (2018: $3.8 million).

The average remaining service periods were as follows:

As at (in years)	**2018 31 Dec**	2017 31 Dec
Norway office (onshore) plan	**7.0**	7.0
SHL-Seaway plan	**18.3**	18.5
SHL-Crew plan	**15.6**	16.8

Significant actuarial assumptions

The principal assumptions used to determine the present value of the defined benefit obligation were as follows:

Year ended 31 December 2018

(in %)	**Netherlands**	**Norway**	**France**
Pension increase	**–**	**0.8 – 2.5**	**–**
Discount rate	**2.0**	**2.6**	**1.5**
Future salary increase	**2.5**	**2.8**	**3.0**

Year ended 31 December 2017

(in %)	Netherlands	Norway	France
Pension increase	–	0.4 – 2.3	–
Discount rate	2.0	2.3	1.3
Future salary increase	2.5	2.5	3.0

Assumptions regarding future mortality are set based on advice in accordance with published statistics and experience. The average life expectancies in years of a pensioner retiring at the plan retirement age for participants in the Norway office (onshore) plan, the SHL-Seaway plan and the SHL-Crew plan are shown below. Life expectancy information for the sailor plan has not been provided as participants are only entitled to receive a pension between 60-67 years of age.

Retirement benefit plan	Retirement age	Sex	As at balance sheet date 2018 31 Dec	2017 31 Dec
Norway office (onshore) plan	67 years	Male	**18.4**	11.7
	67 years	Female	**24.9**	15.8
SHL-Seaway plan	67 years	Male	**20.3**	20.0
	67 years	Female	**23.1**	22.0
SHL-Crew plan	67 years	Male	**20.3**	20.0
	67 years	Female	**23.1**	22.0

Sensitivity analysis

A quantitative sensitivity analysis for significant assumptions at 31 December 2018 is shown below. The sensitivity analysis has been determined based on a method that extrapolates the impact on the net defined benefit obligation ((increase)/decrease) as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Norway – sailor plan

(in $ millions)	Pension increase		Discount rate		Future salary increase	
Sensitivity level	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on the net defined benefit obligation	**–**	**–**	**–**	**–**	**–**	**–**

Norway – office plan

(in $ millions)	Pension increase		Discount rate		Future salary increase	
Sensitivity level	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on the net defined benefit obligation	**(0.2)**	**0.1**	**0.1**	**(0.2)**	**–**	**–**

Netherlands – SHL-Seaway plan

(in $ millions)	Life expectancy		Discount rate		Future salary increase	
Sensitivity level	1 year increase	1 year decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on the net defined benefit obligation	**(0.4)**	**0.4**	**2.5**	**(3.4)**	**(4.7)**	**4.1**

Netherlands – SHL-Crew plan

(in $ millions)	Life expectancy		Discount rate		Future salary increase	
Sensitivity level	1 year increase	1 year decrease	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on the net defined benefit obligation	**(0.1)**	**0.1**	**0.3**	**(0.4)**	**(0.7)**	**0.6**

France

(in $ millions)	Discount rate	
Sensitivity level	0.25% increase	0.25% decrease
Impact on the net defined benefit obligation	**0.3**	**(0.3)**

36. Deferred revenue

As at (in $ millions)	2018 31 Dec	2017 31 Dec
Advances received from clients	**5.4**	4.2

Advances received from clients include amounts received before the related work is performed on day-rate contracts and amounts paid by clients in advance of work commencing on construction contracts.

37. Cash flow from operating activities

For the year ended (in $ millions)	Notes	2018 31 Dec	2017 31 Dec
Cash flow from operating activities:			
Income before taxes		**216.3**	554.5
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	15	**389.6**	388.5
Impairment of property, plant and equipment	15	**13.4**	31.5
Impairment of intangible assets	14	**25.3**	–
Amortisation of intangible assets	14	**30.8**	26.4
Losses on other financial assets measured at fair value through profit or loss	7	**4.0**	–
Amortisation of mobilisation costs	6	**9.6**	7.4
Adjustments for investing and financing items:			
Remeasurement gain on business combination	12	**–**	(25.0)
Net bargain purchase gain on business combination	12	**–**	(3.4)
Share of net loss of associates and joint ventures	16	**2.8**	42.7
Finance income	8	**(16.1)**	(24.6)
Net gain on disposal of property, plant and equipment	7	**(5.8)**	(0.5)
Net loss on repurchase of convertible bonds and settlement of borrowings	7	**–**	2.4
Finance costs	8	**13.9**	21.0
Adjustments for equity items:			
Reclassification adjustments relating to foreign subsidiaries disposed of in the year		**–**	7.4
Share-based payments	34	**4.9**	6.0
		688.7	1,034.3
Changes in operating assets and liabilities:			
Decrease in inventories		**4.7**	7.4
Increase in operating receivables		**(309.1)**	(176.8)
Increase/(decrease) in operating liabilities		**137.6**	(554.4)
		(166.8)	(723.8)
Income taxes paid		**(98.3)**	(101.2)
Net cash generated from operating activities		**423.6**	209.3

38. Post balance sheet events

Dividend

The Board of Directors will recommend to the shareholders at the Annual General Meeting on 17 April 2019 that a special dividend of NOK 1.50 per share be paid, equivalent to a total dividend of approximately $55 million, rebalancing cash returns to favour share repurchases.

Share repurchases

On 19 February 2019 the Group completed its $200 million share repurchase programme, initiated in July 2014. Between 1 January 2019 and 19 February 2019 the Group repurchased 4,541,000 shares for a consideration of $49.8 million. On 27 February 2019, in light of the Group’s solid financial and liquidity position and improving market outlook, the Board of Directors authorised a new share repurchase programme of up to $200 million to be carried out over the next two years. The repurchased shares will be held in treasury by the Group.

39. Wholly-owned subsidiaries

Subsea 7 S.A. had the following wholly-owned subsidiaries at 31 December 2018.

Name	Country of registration	Nature of business
Acergy (Gibraltar) Limited	Gibraltar	Corporate Service
Acergy B.V.	Netherlands	Holding
Acergy France SAS	France	General Trading
Acergy Holdings (Gibraltar) Limited	Gibraltar	Special Purpose
Acergy Shipping Ltd	Gibraltar	Vessel Owning
Aquarius Solutions Inc.	Canada	General Trading
Class 3 (UK) Limited	United Kingdom	Vessel Owning
EMAS- AMC PTE Limited	Singapore	General Trading
EMAS Chiyoda Subsea Services Pte Limited	Singapore	General Trading
EMAS Saudi Arabia Limited	Saudi Arabia	General Trading
Globestar FZE (Snake Island)	Nigeria	General Trading
Normand Oceanic AS	Norway	Vessel Owning
Normand Oceanic Chartering AS	Norway	General Trading
Pelagic Nigeria Limited	Nigeria	Holding
Pioneer Lining Technology Limited	United Kingdom	General Trading
PT. Subsea 7 Manufaktur Indonesia	Indonesia	General Trading
Seaway Heavy Lifting Limited	Cyprus	General Trading
Seaway Heavy Lifting Contracting Limited	Cyprus	General Trading
Seaway Heavy Lifting Engineering B.V.	Netherlands	General Trading
Seaway Heavy Lifting Holding Limited	Cyprus	Holding
Seaway Heavy Lifting Offshore Crew B.V.	Netherlands	General Trading
Seaway Heavy Lifting Shipping Limited	Cyprus	Vessel Owning
Seaway Offshore Cables GmbH	Germany	General Trading
Seaway Offshore Cables Limited	United Kingdom	General Trading
Seaway Offshore Participações S.A.	Brazil	Holding
Sevenseas Contractors S de RL de CV	Mexico	General Trading
Seaway Heavy Lifting Contracting France SAS	France	General Trading
Seaway Heavy Lifting Contracting Germany GmbH	Germany	General Trading
SHL Contracting BV	Netherlands	General Trading
SHL Contracting UK Limited	United Kingdom	General Trading
SHL Contracting US Inc.	United States	General Trading
SHL Holding NL B.V.	Netherlands	Holding
SHL Offshore Contractors B.V.	Netherlands	General Trading
Seaway Heavy Lifting Stanislav Yudin Limited	Cyprus	Vessel Owning
SO France S.A.	France	Special Purpose
Subsea 7 (Cyprus) Limited	Cyprus	Vessel Owning
Subsea 7 (Singapore) PTE Limited	Singapore	General Trading
Subsea 7 (UK Service Company) Limited	United Kingdom	Corporate Service
Subsea 7 (US) LLC	USA	General Trading
Subsea 7 (Vessel Company) B.V.	Netherlands	Vessel Owning
Subsea 7 Angola SAS	France	Special Purpose
Subsea 7 Asia Pacific Sdn Bhd	Malaysia	Special Purpose
Subsea 7 Australia Contracting Pty Ltd	Australia	General Trading
Subsea 7 Canada Inc.	Canada	General Trading
Subsea 7 Chartering (UK) Limited	United Kingdom	General Trading
Subsea 7 Contracting (UK) Limited	United Kingdom	General Trading
Subsea 7 Crewing Limited	United Kingdom	Special Purpose
Subsea 7 Crewing Services Pte Limited	Singapore	Special Purpose
Subsea 7 Deep Sea Limited	United Kingdom	General Trading
Subsea 7 Do Brasil Serviços Ltda	Brazil	General Trading
Subsea 7 Engineering Limited	United Kingdom	General Trading
Subsea 7 Finance (UK) PLC	United Kingdom	Special Purpose

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39. Wholly-owned subsidiaries continued

Name	Country of registration	Nature of business
Subsea 7 Holding Inc.	Cayman Islands	Holding
Subsea 7 Holding Norway AS	Norway	Holding
Subsea 7 Holdings (US) Inc.	USA	Holding
Subsea 7 Interim UK Holdings Limited	United Kingdom	Holding
Subsea 7 International Contracting Limited	United Kingdom	General Trading
Subsea 7 International Holdings (UK) Limited	United Kingdom	Holding
Subsea 7 Investments (UK) Limited	United Kingdom	Special Purpose
Subsea 7 i-Tech Australia Pty Limited	Australia	General Trading
Subsea 7 i-Tech DO Brasil Servicos Ltda	Brazil	Dormant
Subsea 7 i-Tech Limited	United Kingdom	General Trading
Subsea 7 i-Tech Mexico S. de R.L. de C.V.	Mexico	General Trading
Subsea 7 i-Tech Norway AS	Norway	General Trading
Subsea 7 i-Tech US Inc	USA	General Trading
Subsea 7 Limited	United Kingdom	General Trading
Subsea 7 Luanda Ltd	Cayman Islands	General Trading
Subsea 7 M.S. Limited	United Kingdom	Corporate Service
Subsea 7 Marine (US) Inc.	USA	Dormant
Subsea 7 Marine LLC	USA	General Trading
Subsea 7 Mexico S de RL de CV	Mexico	General Trading
Subsea 7 Moçambique LDA	Mozambique	General Trading
Subsea 7 Navica AS	Norway	Vessel Owning
Subsea 7 Nigeria Limited	Nigeria	General Trading
Subsea 7 Nile Delta Limited	Egypt	General Trading
Subsea 7 Normand Oceanic Holding AS	Norway	Holding
Subsea 7 Norway AS	Norway	General Trading
Subsea 7 Offshore Resources (UK) Limited	United Kingdom	Vessel Owning
Subsea 7 Pipeline Production Limited	United Kingdom	General Trading
Subsea 7 Port Isabel LLC	USA	General Trading
Subsea 7 Portugal, Limitada	Portugal	General Trading
Subsea 7 Senior Holdings (UK) Limited	United Kingdom	Holding
Subsea 7 Shipping Limited	Isle of Man	Vessel Owning
Subsea 7 Singapore Contracting Pte Limited	Singapore	General Trading
Subsea 7 Treasury (UK) Limited	United Kingdom	Special Purpose
Subsea 7 Vessel Owner AS	Norway	Vessel Owning
Subsea 7 West Africa Contracting Limited	United Kingdom	General Trading
Subsea 7 West Africa SAS	France	General Trading
Swagelining Limited	United Kingdom	General Trading
Tartaruga Insurance Limited	Isle of Man	Special Purpose
Thames International Enterprise Limited	United Kingdom	Special Purpose
ZNM Nigeria Limited	Nigeria	Dormant

(a) Wholly-owned subsidiaries directly owned by the parent company, Subsea 7 S.A.

For all entities, the principal place of business is consistent with the country of registration.

All subsidiary undertakings are included in the Consolidated Financial Statements of the Group. The proportion of the voting rights in the subsidiary undertakings held directly by the immediate parent company do not differ from the proportion of common shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

Details of the addresses of the registered office of each of the wholly-owned subsidiaries are available on request from Subsea 7 S.A., registered office, 412F, route d'Esch, L-2086 Luxembourg.

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 costs, 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, taxation and other one-off adjustments to the Consolidated Income Statement. 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:

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Net operating income	**200.0**	580.7
Depreciation, amortisation and mobilisation	**430.0**	422.3
Impairment of property, plant and equipment	**13.4**	31.5
Impairment of intangible assets	**25.3**	–
Adjusted EBITDA	**668.7**	1,034.5
Revenue	**4,073.8**	3,985.6
Adjusted EBITDA %	**16.4%**	25.9%

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

For the year ended (in $ millions)	**2018 31 Dec**	2017 31 Dec
Net income	**164.5**	454.6
Depreciation, amortisation and mobilisation	**430.0**	422.3
Impairment of property, plant and equipment	**13.4**	31.5
Impairment of intangible assets	**25.3**	–
Remeasurement gain on business combination	**–**	(25.0)
Finance income	**(16.1)**	(24.6)
Other gains and losses	**(14.1)**	54.8
Finance costs	**13.9**	21.0
Taxation	**51.8**	99.9
Adjusted EBITDA	**668.7**	1,034.5
Revenue	**4,073.8**	3,985.6
Adjusted EBITDA %	**16.4%**	25.9%

SUBSEA 7 S.A. FINANCIAL STATEMENTS AND REPORT OF THE REVISEUR D'ENTREPRISES AGREE FOR YEAR ENDED 31 DECEMBER 2018

412F, route d'Esch
L-2086
Luxembourg
R.C.S. Luxembourg No. B43172

To the Shareholders of Subsea 7 S.A.

412F, route d'Esch

L-2086 Luxembourg

Opinion

We have audited the Financial Statements of Subsea 7 S.A. (the "Company") included in page 127 to page 133, which comprise the Balance Sheet as at 31 December 2018, and the Profit and Loss account for the year then ended, and the notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the Financial Statements.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the Financial Statements" section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the Financial Statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of the audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter:	**Impairment of Investments in Affiliated Undertakings**
Description of key audit matter:	Subsea 7 S.A., as ultimate parent of the Group, holds shares in affiliated undertakings Acergy Holdings (Gibraltar) Limited, Subsea 7 International Holdings (UK) Limited and Subsea 7 (UK Service Company) Limited amounting to an aggregate of $1,913.4 million as at 31 December 2018 as disclosed in Note 3 to the Financial Statements. As stated in Note 2.1 to the Financial Statements, the Company performs an annual review of the carrying amounts of individual investments with any resulting impairments reflected in the profit and loss account in the relevant period. If an impairment indicator is identified, the estimated recoverable amount of the investment is prepared. The estimated recoverable amount is calculated as the higher of the value-in-use or fair value less costs to sell. The outcome of the impairment review could vary significantly if different assumptions were applied in the valuation model. The key factors are: • the future EBITDA assumptions taken from the Group's most recent budgets and plans for the next five years (the "plan"); • the long-term growth rate used beyond the period covered by the plan; • the pre-tax discount rate applied to future cash flows. Impairment of shares in affiliated undertakings is considered a key audit matter because of the important judgment involved regarding the assessment of their recoverable amount.
Our response:	Our audit procedures over the valuation of the investments in affiliated undertakings included, among others: we assessed management's impairment testing by obtaining the supporting model and assessing the methodology and key assumptions made: • *Future EBITDA forecasts* – we evaluated Management's EBITDA forecasts and tested the underlying values used in the calculations by comparing Management's forecast to the latest Board approved five year strategic plan. We assessed the actual performance in the year against the prior year budgets to evaluate historical forecasting accuracy; • *Long*-term *growth rate* – we compared the rates applied by Management to available externally developed rates; • *Pre-tax discount rates* – we involved our valuations specialists in our evaluation of the discount rate to consider the appropriateness of the rates used; • *Net assets* – we agreed the net assets to the trial balance of the respective companies. We compared the carrying amount of the investments to their recoverable amount in order to assess whether an impairment or reversal of previously recognised impairments exists. We assessed the adequacy and appropriateness of the disclosures in Note 2.1 and Note 3 of the Financial Statements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report on page 45 and the accompanying Corporate Governance Report on pages 30 to 39 but does not include the Financial Statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and of those charged with governance for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Financial Statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the Financial Statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the General Meeting of the Shareholders on 17 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 5 years.

The Management Report on page 45 is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Report on pages 30 to 39 is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and Financial Statements of undertakings, as amended, is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Other matter

The Corporate Governance Report includes, when applicable, the information required by article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and Financial Statements of undertakings, as amended.

Ernst & Young

Société anonyme

Cabinet de révision agréé

Olivier Lemaire

Luxembourg, 27 February 2019

At ($ in millions)	Notes	2018 31 Dec	2017 31 Dec
Assets			
Fixed assets			
Financial assets			
Shares in affiliated undertakings	3	**1,913.4**	1,971.0
Participating interests	3	**–**	–
Current assets			
Amounts owed by affiliated undertakings			
becoming due and payable within one year		**–**	10.4
Other debtors			
becoming due and payable within one year		**0.1**	0.2
Investments			
Own shares	6	**79.7**	12.8
Cash at bank and in hand		**–**	–
Prepayments		**0.1**	–
Total assets		**1,993.3**	1,994.4
Capital, reserves and liabilities			
Capital and reserves			
Subscribed capital	4	**654.7**	654.7
Share premium account	4	**1,004.6**	1,275.8
Reserves			
Legal reserve	4, 5	**65.5**	65.5
Reserve for own shares	4, 6	**79.7**	12.8
Profit or (loss) brought forward		**(14.6)**	–
Profit or (loss) for the financial year	4	**127.1**	(14.6)
Total capital and reserves		**1,917.0**	1,994.2
Creditors			
Amounts owed to affiliated undertakings			
becoming due and payable within one year	7	**76.1**	–
Other creditors			
Tax authorities		**0.1**	0.1
Other creditors			
becoming due and payable within one year		**0.1**	0.1
Total liabilities		**76.3**	0.2
Total capital, reserves and liabilities		**1,993.3**	1,994.4

The accompanying notes on pages 129 to 133 form an integral part of the Financial Statements for Subsea 7 S.A.

For the year ended ($ in millions)	Notes	2018 31 Dec	2017 31 Dec
Other operating income	8	**41.4**	37.6
Raw materials and consumables and other external expenses			
Other external expenses	10	**(1.6)**	(0.8)
Staff costs			
Wages and salaries		**(0.1)**	(0.1)
Other operating expenses	11	**(29.2)**	(28.6)
Income from participating interests			
derived from affiliated undertakings	12	**210.0**	–
Other interest receivable and similar income			
derived from affiliated undertakings		**1.0**	7.3
other interest and similar income		**–**	17.9
Value adjustments			
in respect of financial assets and of investments held as current assets	3, 6	**(83.2)**	(29.0)
Interest payable and similar expenses			
concerning affiliated undertakings		**(4.2)**	(13.3)
other interest and similar expenses		**(6.6)**	(5.6)
Other taxes		**(0.4)**	–
Profit or (loss) for the financial year		**127.1**	(14.6)

The accompanying notes on pages 129 to 133 form an integral part of the Financial Statements for Subsea 7 S.A.

1. Organisation

Subsea 7 S.A. (the Company) is a holding company which was incorporated under the laws of Luxembourg on 10 March 1993. The Company has been incorporated for an unlimited period of time. The Subsea 7 S.A. group (the Group) consists of Subsea 7 S.A. and its affiliated undertakings at 31 December 2018.

The objects of the Company are to invest in affiliated undertakings which provide subsea construction, maintenance, inspection, survey and engineering services, predominantly for the offshore oil and gas, renewable energy, heavy lifting and related industries. More generally, the Company is authorised to participate in any manner in all commercial, industrial, financial and other enterprises of Luxembourg or foreign nationality through the acquisition by participation, subscription, purchase, option or any other means of all shares, stocks, debentures, bonds or securities; and the acquisition of patents and licences it will administer and exploit. The Company is authorised to lend or borrow with or without security, provided that any monies so borrowed may only be used for the purpose of the Company, or companies which are affiliated undertakings of, or associated with the Company; in general it is authorised to undertake any operations directly or indirectly connected with these objects.

The Company also prepares Consolidated Financial Statements in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union; these are shown on pages 40 to 120 and are also available at the registered office of the Company or on www.subsea7.com.

2. Significant accounting policies

The financial statements were prepared in accordance with Luxembourg legal and regulatory requirements. Accounting policies and valuation rules are, besides the ones laid down by the law of 19 December 2002 as amended, determined and applied by the Board of Directors of the Company. The Company maintains its accounting records and presents its financial statements in US Dollars ($). Significant accounting policies are as follows:

2.1 Financial assets

Shares in affiliated undertakings, participating interests and investments held as fixed assets are stated at cost less any accumulated impairment in value. An annual review of the carrying amount is performed on an individual investment basis with resulting impairments or reversals of impairment reflected in the profit and loss account in the relevant period. Earnings in investee companies are recognised when, and to the extent that, dividends are received from affiliated undertakings and participating interests.

2.2 Own shares

Own shares are initially measured at acquisition cost and recognised as an asset with a corresponding non-distributable reserve created from share premium. Own shares are subsequently re-measured at the lower of cost or market value using FIFO (First In First Out) method. They are subject to value adjustments where their recovery is compromised. These value adjustments are reversed when the reasons for which the value adjustments were made have ceased to apply.

2.3 Translation of foreign currencies

The Company maintains its accounts in US Dollars; this is the currency in which its capital is expressed and the Financial Statements are prepared. Amounts in foreign currencies are translated into US Dollars on the following basis:

- formation expenses, the cost of acquisition of intangible, tangible and financial fixed assets denominated in a currency other than US Dollars are translated at historical exchange rates;
- all other assets denominated in a currency other than US Dollars are valued individually at the lower of their values translated into US Dollars at their historical exchange rate or exchange rate prevailing at the balance sheet date;
- all liabilities denominated in a currency other than US Dollars are valued individually at the higher of their values translated at historical exchange rate or exchange rate prevailing at the balance sheet date; and
- revenues and expenses denominated in a currency other than US Dollars are translated into US Dollars at the exchange rates applicable on the day on which they are collected or disbursed.

Only realised foreign exchange gains and losses and unrealised foreign exchange losses are recognised in the Profit and Loss account.

2.4 Share-based payments

Awards made under the Group’s Long-term Incentive Plans, in the form of equity-settled share-based payments, are satisfied by the Company on behalf of its affiliated undertakings. The costs associated with these awards are recognised on the date of issuance and recorded in the Profit and Loss account as an adjustment to the value of own shares.

2.5 Parent company guarantees

The Company issues parent company guarantees (PCGs) to third parties on behalf of its direct and indirect affiliated undertakings where requested. The Company receives a fee in respect of the PCGs issued, which is recorded as other operating income within the Profit and Loss account. This income is recognised on a straight-line basis over the period of the guarantee.

2.6 Interest payable and receivable

Amounts owed to and owed by affiliated undertakings bear interest at commercial rates.

2.7 Amounts owed by affiliated undertakings and other debtors

Amounts owed by affiliated undertakings and other debtors are recognised initially at nominal amount. Provision for impairment is made when there is objective evidence that the Company may not be able to collect all of the amounts due. Bad debts are written off where necessary.

2.8 Amounts owed to affiliated undertakings and other creditors

Amounts owed to affiliated undertakings and other creditors are stated at nominal amount.

3. Financial assets

($ in millions)	Shares in affiliated undertakings	Participating interests
Cost		
At 31 December 2017	3,061.4	18.8
At 31 December 2018	**3,061.4**	**18.8**
Accumulated value adjustments		
At 31 December 2017	(1,090.4)	(18.8)
Value adjustment in year	(57.6)	–
At 31 December 2018	**(1,148.0)**	**(18.8)**
Carrying amount		
At 31 December 2017	1,971.0	–
At 31 December 2018	**1,913.4**	**–**

A review of the carrying amount of the financial assets was performed at 31 December 2018; this resulted in a value adjustment of $57.6 million being recognised in the Company's shares held in Acergy Holdings (Gibraltar) Limited following intragroup restructuring.

Shares in affiliated undertakings

		Percentage held		Carrying amount ($ in millions)	
Name of the Company	Country	**2018**	2017	**2018**	2017
Acergy Holdings (Gibraltar) Limited	Gibraltar	100%	100%	**732.0**	789.6
Subsea 7 International Holdings (UK) Limited	UK	100%	100%	**1,101.5**	1,101.5
Subsea 7 (UK Service Company) Limited	UK	100%	100%	**79.9**	79.9
Total shares in affiliated undertakings				**1,913.4**	1,971.0

Participating interests

		Percentage held		Carrying amount ($ in millions)	
Name of the Company	Country	**2018**	2017	**2018**	2017
Subsea 7 Shipping Limited	Isle of Man	<1%	<1%	**–**	–

The capital, reserves and profit and loss of the affiliated undertakings of the Company are included within the Annual Report and Consolidated Financial Statements of Subsea 7 S.A. as shown on page 119 to page 120, and the Company has applied the exemption, in accordance with article 67.3b of the law of 19 December 2002, to not disclose this information.

4. Capital and reserves

($ in millions)	Subscribed capital	Share premium account	Legal reserve	Reserve for own shares	Profit or (loss) brought forward	Profit or (loss) for the financial year	Total
Balance at 1 January 2018	654.7	1,275.8	65.5	12.8	–	(14.6)	1,994.2
Allocation of the result	–	–	–	–	(14.6)	14.6	–
Dividend paid	–	(204.3)	–	–	–	–	(204.3)
Net movement of own shares	–	(66.9)	–	66.9	–	–	–
Profit for the financial year	–	–	–	–	–	127.1	127.1
Balance at 31 December 2018	**654.7**	**1,004.6**	**65.5**	**79.7**	**(14.6)**	**127.1**	**1,917.0**

At 31 December 2018, the authorised share capital comprised 450,000,000 $2.00 common shares (2017: 450,000,000 $2.00 common shares). The subscribed capital comprised 327,367,111 $2.00 common shares (2017: 327,367,111 $2.00 common shares).

A dividend of NOK 5.00 ($0.62) per share was approved by the shareholders of the Company at the Annual General Meeting on 17 April 2018 which was paid from the share premium account on 2 May 2018.

Net movement of own shares of $66.9 million comprised share repurchases during the year at a cost of $92.9 million, partially offset by shares reallocated relating to share-based payments of $11.5 million and a downward value adjustment in the year of $14.5 million.

5. Legal reserve

Luxembourg law requires that 5% of the Company's unconsolidated net income is allocated to a legal reserve annually, prior to declaration of dividends. This requirement continues until the reserve is 10% of its issued share capital at nominal value, after which no further allocations are required until further issuance of shares. The legal reserve may also be satisfied by allocation of the required amount at the issuance of shares or by a transfer from share premium. The legal reserve is not distributable. The legal reserve for all issued common shares has been satisfied and appropriate allocations are made to the legal reserve account at the time of each issuance of new shares.

6. Reserve for own shares

	2018 Number of shares	**2018 in $ millions**	2017 Number of shares	2017 in $ millions
At year beginning	**857,887**	**12.8**	41,428	0.4
Shares repurchased	**8,149,699**	**92.9**	1,496,627	23.2
Shares reallocated relating to share-based payments	**(767,562)**	**(11.5)**	(680,168)	(10.8)
Value adjustment in year	**–**	**(14.5)**	–	–
Balance at year end	**8,240,024**	**79.7**	857,887	12.8

At 31 December 2018, the Company directly held 8,240,024 (2017: 857,887) own shares with a total nominal value of $16.5 million (2017: $1.7 million), representing 2.52% (2017: 0.26%) of the total number of issued shares.

During the year ended 31 December 2018, 738,709 (2017: 635,955) shares, with a total nominal value of $1.5 million (2017: $1.3 million), representing 0.23% (2017: 0.19%) of the total number of issued shares were reallocated for nil consideration to employees of the Subsea 7 Group to satisfy share awards under the 2013 Long-term Incentive Plan. In addition, 28,853 (2017: 44,213) shares with a total nominal value of $0.1 million (2017: $0.1 million), representing 0.01% of the total number of shares issued, were reallocated for $0.4 million consideration (2017: $ 0.6 million) to employees of the Subsea 7 Group to satisfy options exercised under the 2003 Plan.

The Company recognised a loss of $11.1 million (2017: $10.2 million) related to own shares used for settlement of Long-term Incentive Plans during the financial year.

A review of the carrying amount of own shares held was performed at 31 December 2018; this resulted in a value adjustment of $14.5 million being recognised.

7. Amounts owed to affiliated undertakings

Becoming due and payable within one year

At ($ in millions)	**2018 31 Dec**	2017 31 Dec
Amounts owed to affiliated undertakings	**76.1**	–

Amounts owed to affiliated undertakings were mainly related to amounts due to Subsea 7 Treasury (UK) Limited under a short-term working capital facility.

8. Other operating income

At ($ in millions)	**2018 31 Dec**	2017 31 Dec
Parent company guarantee income	**41.4**	37.6

9. Commitments and guarantees

The Company arranges bank guarantees, which collectively refer to bank guarantees, performance bonds, tendering bonds, advance payment bonds, guarantees or standby letters of credit in respect of the performance obligations certain of its affiliated undertakings have to their clients.

Facilities

The multi-currency revolving credit and guarantee facility

The Group has a $656 million multi-currency revolving credit and guarantee facility which matures on 2 September 2021. The facility is with several banks and is available for the issuance of guarantees, up to a limit of $200 million, a combination of guarantees and cash drawings, or is available in full for cash drawings. The facility is guaranteed by the Company and Subsea 7 Finance (UK) PLC. The facility was unutilised at 31 December 2018.

The Export Credit Agency (ECA) senior secured facility

In July 2015 the Group entered into a $357 million senior term loan facility secured on two vessels under construction at the time. The facility is provided 90% by an Export Credit Agency (ECA) and 10% by two banks and is available for general corporate purposes. The ECA tranche has a 12-year maturity and a 12-year amortising profile. The bank tranche has a five-year maturity and a 15-year amortising profile, in all cases from the date of delivery of the vessels. If the bank tranche is not refinanced satisfactorily after five years then the ECA tranche also becomes due. During the first quarter of 2017 an amount of $301.3 million was drawn under the facility. The facility is guaranteed by the Company and Subsea 7 Finance (UK) PLC. At 31 December 2018 the amount outstanding under the facility was $258.2 million (2017: $282.7 million).

Bank overdraft and short-term lines of credit

Overdraft facilities consisted of $6.3 million (2017: $6.7 million), of which $nil (2017: $nil) was drawn at 31 December 2018.

9. Commitments and guarantees continued

Other facilities

In addition to the above there are a number of uncommitted, unsecured bi-lateral guarantee arrangements in place in order to provide specific geographical coverage. The total utilisation of these facilities at 31 December 2018 was $753.3 million (2017: $542.0 million).

Guarantee arrangements with joint ventures

On 27 July 2016 Eidesvik Seven AS, a 50% owned joint venture between Eidesvik Offshore ASA and the Group, drew down NOK 572 million from a NOK 600 million bank loan facility to repay a shareholder loan from the Group. The facility, secured on the vessel, *Seven Viking*, is fully guaranteed by the Company with a 50% counter-guarantee from Eidesvik Shipping AS and has a termination date of 31 January 2021. The outstanding balance at 31 December 2018 was NOK 465 million ($53.3 million); (2017: NOK 513 million ($61.0 million)).

10. Other external expenses

For the year ended ($ in millions)	**2018 31 Dec**	2017 31 Dec
Administrative expenses	**1.5**	0.7
Statutory audit fees	**0.1**	0.1
Total	**1.6**	0.8

11. Other operating expenses

For the year ended ($ in millions)	**2018 31 Dec**	2017 31 Dec
Corporate allocation and shareholders' costs	**28.4**	27.7
Other operating expenses	**0.8**	0.9
Total	**29.2**	28.6

12. Income from participating interests derived from affiliated undertakings

On 23 August 2018, Subsea 7 International Holdings (UK) Limited declared a dividend of $210.0 million to be paid to the Company.

13. Tax on profit or loss

For the year ended 31 December 2018 the Company was fully taxable at an effective rate of 26.01% (2017: 27.08%). After taking account of required book to tax adjustments, the Company has recorded a fiscal loss for the year. No benefit has been recorded in respect of those losses due to uncertainty over their future recoverability.

14. Share-based payments

Awards made under the Group's Long-term Incentive Plans, in the form of equity-settled share-based payments, are satisfied by the Company on behalf of its affiliated undertakings. A charge of $11.1 million (2017: $10.2 million) has been recorded under value adjustments in respect of investments held as current assets in relation to the settlement of shared-based compensation.

The most significant share-based schemes operated by the Group are:

2013 Long-term Incentive Plan

The 2013 Long-term Incentive Plan (2013 LTIP) was approved by the Company's shareholders at the Annual General Meeting on 28 June 2013. The 2013 LTIP had a five-year term with awards being made annually.

The 2013 LTIP is an essential component of the Group reward strategy, and was designed to align the interests of participants with those of the Company's shareholders, and enables participants to share in the success of the Group. The 2013 LTIP provides for conditional awards of shares based upon performance conditions over a performance period of at least three years.

Performance conditions are based on two measures: relative total shareholder return (TSR) against a specified comparator group of companies and the level of Return on Average Invested Capital (ROAIC) achieved. Both performance conditions were determined over a three-year period.

During 2018, no initial grants (2017: 1,119,000) of conditional awards of shares were made under the terms of the 2013 LTIP.

On 1 October 2018, in accordance with the terms of the 2013 LTIP, shares totalling 738,709 (2017: 635,955) were unconditionally reallocated to participants.

2018 Long-term Incentive Plan

The 2018 Long-term Incentive Plan (2018 LTIP) was approved by the Company's shareholders at the Annual General Meeting on 17 April 2018. The 2018 LTIP has a five-year term with awards being made annually. The aggregate number of shares which may be granted in any calendar year is limited to 0.5% of issued and outstanding share capital on 1 January of that calendar year. The total number of shares that may be delivered pursuant to awards under the plan shall not exceed 11,500,000. Grants are determined by the Compensation Committee of the Subsea 7 S.A. Board of Directors, which is responsible for operating and administering the plan.

The 2018 LTIP is an essential component of the Group's reward strategy, and was designed to align the interests of participants with those of Subsea 7's shareholders, and enables participants to share in the success of the Group. The 2018 LTIP provides for conditional awards of shares based upon performance conditions over a performance period of at least three years.

Performance conditions are based on two measures: relative Total Shareholder Return (TSR) against a specified comparator group of companies and the level of Return on Average Invested Capital (ROAIC) achieved. Both performance conditions are determined over a three-year period.

During 2018, initial grants comprising 1,227,000 conditional awards of shares were made under the terms of the 2018 LTIP. 797,550 awards are subject to relative TSR performance measures and 429,450 are subject to ROAIC performance measures.

TSR based awards

The Group will have to deliver a TSR ranking above the median for any awards to vest. If the ranked TSR position of the Group during the three-year period, as converted to a percentage, is equal to 50%, 20% of the share award will vest. If the actual ranked TSR position of the Group is greater than 50% and below 90%, the vesting of the share award between 20% and 65% is determined by linear interpolation. The maximum award of 65% would only vest if the Group achieved top decile TSR ranking.

ROAIC based awards

ROAIC will be calculated for each of the three years of the performance period on a quarterly basis. If the average ROAIC achieved by the Group during the performance period is greater than 9% but less than 11%, vesting between 5% and 15% shall be determined by linear interpolation. If the actual ROAIC achieved by the Group during the performance period is greater than 11% but less than 14%, vesting between 15% and 35% shall be determined by linear interpolation. The maximum award of 35% would only vest if the Group achieved average ROAIC of 14% or greater.

Under the terms of the award plan participants are not entitled to receive dividend equivalent payments.

Approximately 127 senior managers and key employees of the Group participate in the LTIP schemes. Individual award caps are in place such that no senior executive or other employee may be granted shares under the 2013 LTIP in a single calendar year that have an aggregate fair market value in excess of 150%, in the case of senior executives, or 100%, in the case of other employees, of their annual base salary as of the first day of the year of award. Additionally, a holding requirement for senior executives applies where senior executives must hold 50% of all awards that vest until they have built up a shareholding with a fair value of 150% of their annual base salary which must be maintained throughout their tenure.

15. Staff

The average full-time equivalent number of employees of the Company for the year ended 31 December 2018 was one (2017: one).

16. Related party transactions

The Company has taken advantage of the exemption under the law of 19 December 2002, Article 65 which does not require the disclosure of transactions with wholly-owned members of the Group.

The Company is an associate of Siem Industries Inc. and is equity accounted for within Siem Industries Inc.'s consolidated annual financial statements. During the year ended 31 December 2018 payments totalling $0.2 million (2017: $0.2 million) were made to Siem Industries Inc. in relation to the services provided by Mr Siem to the Company.

In addition the Company received guarantee commission for an amount of $0.9 million (2017: $0.9 million) from Eidesvik Seven AS related to the 100% guarantee provided on the NOK 600 million ($68.8 million) bank loan facility and rented office accommodation from Siem Europe Properties S.à r.l, a Company ultimately controlled by Siem Industries Inc. Total rental cost for 2018 was less than $0.1 million (2017: less than $0.1 million).

17. Board of Directors' expenses

Fees paid to Directors for the year ended 31 December 2018 amounted to $0.6 million (2017: $0.6 million).

18. Subsequent events

Annual General Meeting

The Board of Directors will recommend to the shareholders at the Annual General Meeting on 17 April 2019 the approval of the allocation of results of the Company and the payment of a dividend of NOK 1.50 per common share, equivalent to a total dividend of approximately $55 million to be paid from the share premium account.

Share repurchases

On 19 February 2019 the Company completed its $200 million share repurchase programme, initiated in July 2014. Between 1 January 2019 and 19 February 2019 the Company repurchased 4,541,000 shares for a consideration of $49.8 million. On 27 February 2019, in light of the Group's solid financial and liquidity position and improving outlook, the Board of Directors authorised a new share repurchase programme of up to $200 million to be carried out over the next two years. The repurchased shares will be held in treasury by the Company.

Acergy S.A.	The former name of Subsea 7 S.A. prior to the Combination which completed following the close of business on the Oslo Børs on 7 January 2011.
Active Patent Family	Family of patent applications and patents of which at least one is still active or alive. A Patent Family groups the patent applications and patent that derive from the same initial invention and claim the same priority date.
Active Vessel Utilisation	Ratio of paid days to days available for utilisation (normally assumed to be 350 days per year) excluding days when vessels are stacked, expressed as a percentage.
Adjusted EBITDA	Adjusted EBITDA is defined in page 125 in the Condensed Consolidated Financial Statements
AGM	Annual General Meeting
Airborne Oil and Gas	Airborne Oil and Gas is a leading manufacturer of thermoplastic composite pipes in which Subsea 7 owns a minority equity stake.
Articles of Incorporation	The articles of incorporation of Subsea 7 S.A.
Autonomous Inspection Vehicle (AIV)	A Remotely Operated Vehicle (ROV) that does not require a host vessel or tether to operate.
Backlog	Expected future revenue from in-hand projects only where an award has been formally signed. Backlog awarded to associates and joint ventures is excluded from backlog figures, unless otherwise stated.
Brownfield	Brownfield developments are oil and gas fields where infrastructure is in place
Buoy-Supported Riser (BSR)	The BSR concept consists of a large sub-surface buoy which is anchored to the seabed by tethers. The buoy supports multiple Steel Catenary Risers which are connected to the floating production storage, and offloading unit (FPSO) by flexible jumpers.
Pipeline Bundle	A Pipeline Bundle incorporates all the structures, valve work, pipelines and control systems necessary to operate a field in one single pre-assembled product. The finished Pipeline Bundle is transported to its offshore location by a Controlled Depth Tow Method, delivering considerable value and cost savings.
Business Management System (BMS)	Our integrated Business Management System integrates all of Subsea7's systems and processes into one complete framework
CAGR	Compound Annual Growth Rate
Cash-generating unit (CGU)	These are the separable business units on which impairment reviews are carried out.
Clean operation	A clean operation is any measure beyond a normal operating practice that will save energy.
Cold Flow Technology	Technology that allows hydrocarbons to be transported under ambient sea water temperature conditions enabling ultra-long tie-backs.
Combination	The repurchase and cancellation of all of the issued and outstanding ordinary shares in the capital of Subsea 7 Inc., the issue by Subsea 7 Inc. of new ordinary shares to Acergy S.A. (now Subsea 7 S.A.) and the issue of new common shares to the Subsea 7 Inc. shareholders, which took place on 7 January 2011. Under IFRS, the Combination is accounted for as an acquisition.
Company	Subsea 7 S.A.
Consortium	An association with one or more companies with the objective of participating in achieving a common goal.
Controlled Depth Tow Method	The Controlled Depth Tow Bundle-lay method was pioneered and developed by Subsea 7 and involves the transportation of pre-fabricated and fully-tested pipelines, control lines and umbilicals in a Bundle configuration suspended between two tow vessels. On arrival at the field, the Bundle is lowered to the seabed, manoeuvred into location and the carrier pipe is flooded to stabilise the Bundle in its final position.
Conventional	Conventional services include the fabrication, installation, extension, hook-up and refurbishment of fixed and floating platforms in shallow water.
Day-rate contract/project	A contract/project in which the contractor is remunerated by the client at an agreed daily rate (often with agreed escalations for multi-year contracts) for each day of use of the contractor's vessels, equipment, personnel and other resources and services utilised on the contract/project. Such contracts may also include certain lump-sum payments e.g. for activities such as mobilisation and demobilisation of vessels and equipment.
Decommissioning	The taking out of service of production facilities at the end of their economic lives and their removal or partial removal from offshore for recycling and/or disposal onshore.
Diving Support Vessel (DSV)	An offshore construction vessel that has dedicated saturation diving chamber(s) and dive bells for subsea construction activities in water depths of up to 300 metres.

DNB	Den Norske Bank.
Dry-dock	A facility for the construction, maintenance, and repair of vessels.
EBITDA	See Adjusted EBITDA.
ECS	EMAS Chiyoda Subsea Limited
Electrically Head Traced Flowline (EHTF)	Electrically Heat Traced Flowline is a combination of high performance thermal insulation (Pipe-in-Pipe) with a restive electrical heating system provided by wires laid between the insulation and the flowline, allowing for greater distances of tie-backs.
Eidesvik Seven	Eidesvik Seven AS and Eidesvik Seven Chartering AS.
ENMAR	ENMAR S.A.
EPCIC	Engineering, Procurement, Construction, Installation and Commissioning. Sometimes shortened to EPIC, EPC or EPCI
EGM	Extraordinary General Meeting
EHTF	Electrically Heat Traced Flowline (EHTF) is Subsea 7's heated pipe-in-pipe technology solution to enhance flow assurance properties.
Executive Management Team	The Executive Management Team of Subsea 7 S.A. comprises: the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice President – Human Resources, General Counsel, Executive Vice President – Commercial
Fabrication yard	Strategically positioned shore based facility to support delivery of offshore projects through fabrication of different types of steel structures e.g. jackets, modules, decks and platforms, spools, jumpers.
FEED	Front-End Engineering and Design
Flex-lay	A pipelay method for installing flexible pipelines, umbilicals and risers by spooling them from a reel, carousel or basket, bending them over a chute and guiding them onto the seabed.
Flowline	A pipeline carrying oil, gas or water that connects the subsea wellhead to a manifold or to surface production facilities.
Global Projects Centre	Part of a Subsea 7's organisational structure which came into effect on 1 January 2015 and regroups the major project teams based in Paris and London which manage large, complex, technology-rich global projects.
Greenfield	Greenfield developments relates to oil and gas fields with no installed infrastructure.
Group	Subsea 7 S.A. and its subsidiaries.
Heavy lift vessel	An offshore vessel or barge designed to lift objects greater than 1,000 tonnes for subsea construction and topside operations.
Hook-up	The process of making connections from a well to an oil and gas separator and from the separator to either the storage tanks or a flowline.
HR	Human Resources
HRT	Hybrid Riser Tower
HSEQ	Health, Safety, Environment and Quality
Integrity Management	A risk-based service supporting operators of subsea assets in the maintenance of their facilities.
IRM	Inspection, Repair and Maintenance of subsea infrastructure.
i-Tech Services	Former name of our Life of Field business unit. See Life of Field business unit.
i-Tech 7	The brand that represents Subsea 7's Life of Field business unit.
J-lay	A pipelay method consisting of welding lengths of steel pipe on board a pipelay vessel (into double, quadruple or hex joints) and lowering the double/quadruple/hex length of pipeline vertically either through the vessel's moonpool or over the side of the vessel to the seabed, then repeating the process.

Life of Field business unit	Our Life of Field business unit provides fully-integrated solutions, engineering services and enabling technologies that protects the integrity and optimises the performance of subsea energy infrastructure, throughout the life of a field, operating under the i-Tech 7 brand.
Long-term agreement (LTA)	The LTA contracts, awarded by Saudi Aramco, have a fixed duration of six years with options to be extended for up to twelve years in total.
Lost-time incident (LTI)	The number of work related injuries or illnesses that result in the affected person being absent from work for at least one normal shift after the shift on which the injury occurred, because they are unfit to perform any duties, per 200,000 hours worked.
Lump-sum contract/project	A contract/project in which the contractor is remunerated by the client at a fixed price which is deemed to include the contractor's costs, profit and contingency allowances for risks. Any over-run of costs experienced by the contractor arising from, for example, an over-run in schedule due to poor execution or increases in costs of goods and services procured from third parties, unless specifically agreed with the client in the contract/project, is for the contractor's account.
L&T Hydrocarbon Engineering	L&T Hydrocarbon Engineering, a wholly owned subsidiary of Larsen & Toubro Limited (L&T), serves the Oil and Gas sector around the world. Organised under Offshore, Onshore, Construction Services, Modular Fabrication and Engineering Services verticals, the company delivers 'design to build' engineering and construction solutions across the hydrocarbon spectrum.
NigerStar7	NigerStar7 Limited and NigerStar7 Free Zone Enterprise.
Norwegian NOx Fund	The Norwegian NOx Fund's purpose is to reduce NOx emissions in industry and fulfil Norway's obligations under the Gothenburg Protocol.
NOx	Nitrogen oxides that are most relevant for air pollution, namely nitric oxide (NO) and nitrogen dioxide (NO2). These gases contribute to the formation of smog and acid rain, as well as affecting tropospheric ozone.
Oil Majors	The largest publically traded oil and gas companies.
OneSubsea ®	OneSubsea is a Schlumberger company which offers a step-change in reservoir recovery for the subsea oil and gas industry through integration and optimisation of the entire production system over the life of a field.
OPEC	Organisation of the Petroleum Exporting Countries
OPEX	Operating cost or expense
Operational support yard	Strategically positioned shore based facility to provide offshore operational support.
Performance share	Performance shares are awarded under the 2009 and 2013 Long-term Incentive Plans and cover approximately 150 senior employees. These shares vest after at least three years, subject to performance conditions.
Petrobras	Petróleo Brasileiro S.A., more commonly known as Petrobras, is a semi-public Brazilian multinational corporation in the petroleum industry.
Pipe-in-Pipe	A Pipe-in-Pipe product consists of a production pipeline being sleeved into an outer pipe with the annulus being kept dry and filed with a high-performance insulation material delivering enhanced thermal properties.
Pipeline system	The pipeline and associated infrastructure for transporting oil and gas from the well head to the production facility.
PLSV	Pipelay Support Vessel.
Reel-lay	A pipelay method consisting of the onshore construction of a pipeline which is spooled onto a large vessel-mounted reel, transported to the field and unreeled down to the seabed.
Remote intervention	Provision of tooling, sampling, repair and containment solutions and services, including engineering, project management, autonomous intervention vehicles, ROVs and related tooling.
Renewables	Renewables or Offshore Renewables activity including the design and installation of offshore wind, tidal, wave and other related marine systems.
Renewables and Heavy Lifting business unit	Our Renewables and Heavy Lifting business unit is an experienced partner for the delivery of offshore wind farm projects and specialist heavy lifting and cable-lay services, operating under the Seaway 7 brand.
Riser/riser systems	A pipe through which liquid travels upward from the seabed to a surface production facility. Riser systems fall into two categories, those coupled directly to the host facility (SCRs), and un-coupled systems which in most cases are connected by flexible jumpers (HRTs/BSRs).

ROAIC	Return on Average Invested Capital. A key performance indicator for the Group which is used as a non-market performance measure in the 2013 and 2018 Long-term Incentive Plans.
ROV(s)	Remotely Operated Vehicle(s).
Schlumberger	Schlumberger Limited is a global oilfield services company. The parent company of OneSubsea which Subsea 7 is partnered with in Subsea Integration Alliance
SCR	Steel catenary riser
Seaway 7	The brand that represents the Renewable and Heavy Lifting business unit
Seaway Heavy Lifting	Seaway Heavy Lifting Holding Limited and its subsidiaries.
Seaway Offshore Cables (SOC)	Formerly called Siem Offshore Contractors. Seaway Offshore Cables is a leader in submarine cable installation, repair and maintenance serving the global offshore renewable energy and oil and gas sectors as well as utility markets. SOC was acquired by Subsea 7 in 2018.
Seismic Surveys	Seismic Surveys are used to produce images of the various rock types and their location beneath the Earth's surface, allowing for accurate plans of the location and size of oil and gas wells.
Setemares	Setemares Angola, Limitada.
SIMAR	SIMAR – Sociedade Angolana de Inspecção, Manutenção e Reparação Maritima, Lda.
S-lay	A pipelay method consisting of continuously welding lengths of steel pipe on board a pipelay vessel and feeding them in a horizontal manner typically over the stern of the vessel on a ramp (stinger) from where the pipe, under its own weight, forms an 'S'-shaped catenary as it is lowered to the seabed.
Sonacergy	Sonacergy – Serviços e Construções Petroliferas Lda (Zona Franca da Madeira).
Sonamet	Sonamet Industrial S.A.
Spoolbase	A shore-based facility used to facilitate continuous pipelaying for offshore oil and gas production. A spoolbase facility allows the welding of joints of pipe, predominantly steel pipe of 4" to 18" diameter, into predetermined lengths for spooling onto a reel-lay pipelay vessel.
Stacked	Term used to describe a vessel that is not operational and is unavailable for immediate deployment. Stacked vessels usually have a significantly reduced crew and an associated decrease in operating cost.
Subsea Integration Alliance	The alliance formed between Subsea 7 and OneSubsea (a Schlumberger company) to provide clients with integrated SPS and SURF solutions for offshore oil and gas developments.
Subsea Processing Facilities	Equipment that is placed on the seabed which is able to process hydrocarbons before entering a topside facility.
Subsea Production System (SPS)	The equipment placed on the seabed that is connected to subsea pipeline networks and riser systems to produce the reservoir to a host facility
Subsea 7	Subsea 7 S.A. and its subsidiaries.
Subsea 7 Inc.	Subsea 7 Inc., a company incorporated under the laws of the Cayman Islands registered number MC-115107 with registered offices at Ugland House, South Church Street, George Town, Grand Cayman, KY1-1104, Cayman Islands.
Subsea 7 S.A.	Subsea 7 S.A. (formerly Acergy S.A.), a company incorporated under the laws of Luxembourg registered with the Registre de Commerce et des Sociétés in Luxembourg under number B 43 172 with a registered office at 412F, route d'Esch, L-2086, Luxembourg.
Subsea 7 Malaysia	Subsea 7 Malaysia Sdn. Bhd.
Subsea Field Development	The range of subsea engineering, design, project management, fabrication and installation services related to the development of new subsea oil and gas fields. The principal services relate to rigid and flexible pipelines, risers, umbilicals and associated construction activities.
SURF	Subsea Umbilicals, Risers and Flowlines, which includes infrastructure related to subsea trees or floating production platforms, regardless of water depth, such as pipelines, risers, umbilicals, moorings, and other subsea structures such as Pipeline End Manifolds and Pipeline End Terminations.
SURF and Conventional business unit	Our SURF and Conventional business unit is a global leader in offshore energy services delivering Design, Engineering, Procurement, Construction, Installation (EPCI) and Decommissioning projects in all water depths, operating under the Subsea 7 brand.
Tie-back	A connection between a new oil and gas discovery and an existing production facility, improving the economics of marginal fields into profitable assets.
Tonnage tax	An optional tax regime for shipping companies offered by tax authorities including the UK and Norway.

Total recordable incident rate	The number of lost-time injuries, cases of substitute work and other injuries requiring treatment by a medical professional per 200,000 hours worked.
Total Shareholder Return	Total shareholder return is a measure of the performance of shares. It combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualized percentage.
Total Vessel Utilisation	Ratio of paid days to days available for utilisation (normally assumed to be 350 days per year) expressed as a percentage.
T&I	Transport and Installation. Sometimes shortened to T&I.
Umbilical	An assembly of hydraulic hoses, which can also include electrical cables or optic fibres, used to control subsea structures from an offshore platform or a floating vessel.
Values	Subsea 7 has six Values which are embedded at all levels in the organisation and which guide our behaviours: Safety, Integrity, Innovation, Performance, Collaboration and Sustainability.
Variation Order	An instruction by the client for a change in the scope of the work to be performed under the contract which may lead to an increase or a decrease in contract revenue based on changes in the specifications or design of an asset and changes in the duration of the contract.
VPS	Verdipapirsentralen, the Norwegian central securities depository.
Walk-to-work vessel	A specialised vessel that allows access to wind turbine generators for maintenance and service.
WTG	Wind Turbine Generator
Xodus Group	Client-led engineering consultancy that provides engineering and advisory services to clients in the oil and gas, LNG, renewables and utilities industries worldwide. Xodus Group's shareholders are Subsea 7, which holds a 60% interest, and Chiyoda Corporation of Japan, with a 40% interest

Special note regarding forward-looking statements

Certain statements made in this Report may include 'forward-looking statements'. These statements relate to our expectations, beliefs, intentions or strategies regarding the future. These statements may be identified by the use of words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'may', 'plan', 'project', 'should', 'will', 'seek', and similar expressions.

The forward-looking statements that we make reflect our current views and assumptions with respect to future events and are subject to risks and uncertainties. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, including those discussed in this Report under 'Risk Management', 'Financial Review' and the quantitative and qualitative information disclosures about market risk contained in Note 32 'Financial instruments' to the Consolidated Financial Statements. The following factors are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: (i) our ability to deliver fixed price projects in accordance with client expectations and the parameters of our bids and avoid cost overruns; (ii) our ability to collect receivables, negotiate variation orders and collect the related revenue; (iii) our ability to recover costs on significant projects; (iv) capital expenditures by oil and gas companies; (v) the current global economic situation and level of oil and gas prices; (vi) delays or cancellation of projects included in our backlog; (vii) competition in the markets and businesses in which we operate; (viii) prevailing prices for our products and services; (ix) the loss of, or deterioration in our relationship with, any significant clients; (x) the outcome of legal proceedings or governmental inquiries; (xi) uncertainties inherent in operating internationally, including economic, political and social instability, boycotts or embargoes, labour unrest, changes in foreign governmental regulations, corruption and currency fluctuations; (xii) liability to third parties for the failure of our joint venture partners to fulfil their obligations; (xiii) changes in, or our failure to comply with, applicable laws and regulations; (xiv) cost and availability of supplies and raw materials; (xv) operating hazards, including spills, environmental damage, personal or property damage and business interruptions caused by adverse weather; (xvi) equipment or mechanical failures, which could increase costs, impair revenue and result in penalties for failure to meet project completion requirements; (xvii) the timely delivery of vessels on order and the timely completion of ship conversion programmes; (xviii) the impact of changes to estimated future costs and revenues used in project accounting on a 'percentage-of-completion' basis, which could reduce or eliminate reported income; (xix) our ability to keep pace with technological changes; (xx) the effectiveness of our disclosure controls and procedures and internal control over financial reporting; and (xxi) actions by regulatory authorities or other third parties.

Many of these factors are beyond our ability to control or predict. Given these uncertainties, you should not place undue reliance on the forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Investor relations and press enquiries
Shareholders, securities analysts, portfolio managers, representatives of financial institutions and the press may contact:

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Financial information
Copies of Stock Exchange announcements (including the Group's quarterly and semi-annual results announcements and the Group's Annual Report and Consolidated Financial Statements) are available on the Group's website www.subsea7.com.

Any shareholder requiring a printed copy of the Group's Annual Report and Consolidated Financial Statements or the Company's Financial Statements can request these via the website www.subsea7.com.

Stock listings
Common shares – Traded on Oslo Børs under the symbol SUBC – www.olsobors.no.

ISIN: LU0075646355

Registrar – Common Shares
Registrar for the shares of Subsea 7 S.A., recorded in the Norwegian Central Securities Depository (Verdipapirsentralen – the 'VPS').

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Depository Bank – ADRs
Subsea 7 S.A. has a sponsored Level 1 ADR facility, for which Deutsche Bank Trust Company Americas acts as depository. Each ADR represents one common share of the Company. The ADRs are quoted over-the-counter ('OTC') in the US under the ticker symbol SUBCY.

For enquiries, beneficial ADR holders may contact the broker service of Deutsche Bank Trust Company Americas.

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Financial calendar
Subsea 7 S.A. intends to publish its quarterly financial results for 2019 on the following dates:

Q1 2019 Results	2 May 2019
Q2 and H1 2019 Results	25 July 2019
Q3 2019 Results	7 November 2019
Q4 and FY 2019 Results	26 February 2020

2019 Annual General Meeting
17 April 2019 at 15.00 CET
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