Subsea 7 S.A. Announces First Quarter 2017 Results

Luxembourg – 27 April 2017 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY) announced today results for the first quarter which ended 31 March 2017.

First Quarter highlights

- Industry conditions remained challenging, but tendering activity is improving
- Adjusted EBITDA of $268 million, at a margin of 30%, resulted from strong operational performance and continued cost discipline
- New awards totalled $626 million and included the Mad Dog 2 project that was awarded on an integrated basis with OneSubsea, a Schlumberger company
- Strategically invested to grow and strengthen the Group by acquiring Seaway Heavy Lifting and creating a Renewables and Heavy Lifting Business Unit
- Latest new-build programme successfully completed with the arrival of *Seven Arctic*, *Seven Cruzeiro* and *Seven Kestrel*

	Three Months Ended	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**31 Mar 2017 Unaudited**	31 Mar 2016 Unaudited
Revenue	**897**	746
Adjusted EBITDA[(a)]	**268**	284
Adjusted EBITDA margin[(a)]	**30%**	38%
Net operating income	**169**	194
Net income	**146**	147
Earnings per share – in $ per share		
Basic	**0.43**	0.45
Diluted[(b)]	**0.41**	0.42
As at (in $ millions)	**31 Mar 2017 Unaudited**	31 Dec 2016 Audited
Backlog[(c)]	**5,715**	5,693
Cash and cash equivalents	**1,872**	1,676
Borrowings	**858**	427

(a) For explanations and reconciliations of Adjusted EBITDA and Adjusted EBITDA margin refer to Note 8 'Adjusted EBITDA and Adjusted EBITDA margin' to the Condensed Consolidated Financial Statements.

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

(c) Backlog at 31 March 2017 and 31 December 2016 is unaudited.

Jean Cahuzac, Chief Executive Officer, said:

'Our excellent operational and financial results this quarter reflect consistently strong execution and sustained cost discipline. We continued to deliver best-in-class performance despite the industry-wide downturn. Our Adjusted EBITDA margin remained high at 30% as a result of cost savings and successful progression on several projects.

Our early involvement and collaborative approach on projects have enabled us to develop a market-leading role in optimising efficiency for our clients. Our early engineering activity has increased and we expect this trend to continue as the market recovers in the future. Our clients show a growing interest in integrated SPS and SURF solutions. The award of the Mad Dog 2 project to Subsea 7 and OneSubsea on an integrated basis was a significant industry milestone.

We have increased our focus on the growing market for offshore renewable energy installations with the acquisition of the remaining 50% of Seaway Heavy Lifting that we did not already own. This has led to the establishment of a new Business Unit, Renewables and Heavy Lifting. We anticipate additional renewable energy project awards to market as the economics of offshore wind farms continue to improve.'

Operational highlights

Active vessel utilisation was 65% in the first quarter and total vessel utilisation was 55%. Three vessels joined the fleet in the quarter with delivery thereby completing the Group's vessel construction programme. The PLSV *Seven Cruzeiro* immediately started its long-term contract offshore Brazil and both *Seven Arctic* and *Seven Kestrel* completed crew familiarisation before mobilising for their first projects shortly after the quarter end. Two vessels, *Seven Discovery* and *Normand Oceanic*, were released from the fleet and having completed its activities in Brazil, *Seven Mar,* was stacked in the quarter.

SURF and Conventional projects progressed well. Offshore Egypt, the West Nile Delta Phase One project was substantially completed and first gas was achieved ahead of schedule. Awarded in 2015, this project embraced new ways of working established in the industry downturn and its successful completion reflects the benefits of collaboration and early engagement. Also offshore Egypt, good progress was made on the West Nile Delta platform extension and tie-in and the Atoll projects. In the North Sea, the Maria project, offshore Norway, continued to progress well, preparing for the final offshore campaign later in the year. Offshore UK, Pipeline Bundles were fabricated and towed into position on the Western Isles and Callater projects. In the US Gulf of Mexico significant progress was made on the Stampede and Coulomb Phase 2 projects and the Subsea Integration Alliance (Subsea 7's alliance with OneSubsea, a Schlumberger company) commenced engineering and procurement for the Dalmatian project. Offshore Australia, the Persephone Work Pack 3 project was substantially completed.

i-Tech Services was awarded two new contracts offshore Brazil. Operational activity was lower than the prior year period, reflecting prevailing market trends.

The Beatrice wind farm installation project progressed with the fabrication of piles and jackets. *Stanislav Yudin* prepared for offshore pile installation, which commenced in April, shortly after the end of the first quarter.

Financial highlights

First quarter revenue of $897 million and Adjusted EBITDA of $268 million were respectively 20% higher and 6% lower than the prior year comparative period. Adjusted EBITDA margin was 30%, reflecting the good operational performance and impact of the Group's cost reduction and resizing programmes. Diluted earnings per share was $0.41 after recording a non-cash accounting gain of $42 million, equivalent to 12 cents per share, in relation to the acquisition of Seaway Heavy Lifting.

Cash and cash equivalents was $1.9 billion as at 31 March 2017 and net cash was $1.0 billion. Cash generated from operating activities of $65 million included a decrease in net operating liabilities of $194 million. Cash used in investing activities of $151 million was primarily related to the acquisition of Seaway Heavy Lifting.

Order intake and contract awards

At 31 March order backlog was $5.7 billion. This included the addition of $285 million as a result of the acquisition of Seaway Heavy Lifting, partially offset by the cancellation of $106 million from the order backlog due to early termination of the day-rate contract for *Seven Mar* due to Brazilian maritime law that prioritises Brazilian-flagged vessels over international vessels of a similar specification. New awards totalled $626 million in the quarter, with announced awards comprising the Mad Dog 2 project in the US Gulf of Mexico, and the Sole project, offshore Australia.

Outlook

Subsea 7 guidance for the full year has been updated to include the consolidation of Seaway Heavy Lifting for ten months of 2017. Revenue for 2017 is still expected to be in line with 2016. Adjusted EBITDA percentage margin is expected to be lower than the record level reported in 2016.

Assuming a sustained oil price improvement and that cost reductions identified by the industry are consistently achieved, there is still cause to believe that the number of SURF project awards to the market could increase within the next 12 months.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 27 April 2017

Time: 12:00 UK Time

Conference ID: 72687737#

	Conference Dial In Numbers
United Kingdom	020 3139 4830
United States	718 873 9077
Norway	23 50 05 59
International Dial In	+44 20 3139 4830

Replay Facility Details

A replay facility (with conference ID 682637#) will be available from:

Date: 27 April 2017
Time: 17:00 UK Time

	Conference Replay Dial In Numbers
International Dial In	+44 20 3426 2807

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Special Note Regarding Forward-Looking Statements

Certain statements made in this announcement may include 'forward-looking statements'. These statements may be identified by the use of words like 'anticipate', 'believe', 'could', 'estimate', 'expect', 'forecast', 'intend', 'may', 'might', 'plan', 'predict', 'project', 'scheduled', 'seek', 'should', 'will', and similar expressions. The forward-looking statements reflect our current views and are subject to risks, uncertainties and assumptions. The principal risks and uncertainties which could impact the Group and the factors which could affect the actual results are described but not limited to those in the 'Risk Management' section in the Group's Annual Report and Consolidated Financial Statements 2016. These factors, and others which are discussed in our public announcements, are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: actions by regulatory authorities or other third parties; our ability to recover costs on significant projects; general economic conditions and competition in the markets and businesses in which we operate; our relationship with significant clients; the outcome of legal and administrative proceedings or governmental enquiries; uncertainties inherent in operating internationally; the timely delivery of vessels on order; the impact of laws and regulations; and operating hazards, including spills and environmental damage. Many of these factors are beyond our ability to control or predict. Other unknown or unpredictable factors could also have material adverse effects on our future results. Given these factors, you should not place undue reliance on the forward-looking statements.

First Quarter 2017

Revenue
Revenue for the quarter was $897 million, an increase of $151 million or 20% compared to Q1 2016. The year-on-year increase in revenue was within the Renewables and Heavy Lifting Business Unit and mainly related to the Beatrice wind farm installation project. This was partially offset by lower activity levels within the SURF and Conventional and i-Tech Services Business Units.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the quarter were $268 million and 30% respectively compared to $284 million and 38% in Q1 2016. The Adjusted EBITDA margin in Q1 2017 was driven by cost discipline and good operational performance. Q1 2016 EBITDA margin benefitted from the successful completion of a number of large projects. Share of net income of associates and joint ventures was reduced in Q1 2017 compared with the prior year period, reflecting low levels of offshore activity in the quarter.

Net operating income
Net operating income for the quarter was $169 million, compared to net operating income of $194 million in Q1 2016. The reduction in net operating income was mainly due to a lower number of projects nearing completion compared to the same period in the prior year.

Net Income
Net income was $146 million in the quarter which was in line with Q1 2016. Net income in Q1 2017 benefitted from:

- a remeasurement gain on business combination of $42 million related to the acquisition of Seaway Heavy Lifting

offset by:

- a decrease of $25 million in net operating income compared with Q1 2016; and
- a net foreign currency loss of $7 million in Q1 2017, recognised within other gains and losses, compared to a $12 million gain in Q1 2016.

The effective tax rate for Q1 2017 was 29% compared to 31% in Q1 2016.

Earnings per share
Diluted earnings per share was $0.41 for the quarter compared to $0.42 in Q1 2016, calculated using a weighted average number of shares of 342 million and 343 million respectively.

Cash and cash equivalents
Cash and cash equivalents was $1.9 billion at 31 March 2017, an increase of $195 million compared to 31 December 2016. The increase in cash and cash equivalents during the quarter was mainly attributable to:

- $65 million of net cash generated from operating activities; and
- $301 million drawn down against the export credit agency (ECA) senior secured facility

partially offset by:

- $111 million net cash disbursed in acquiring the remaining 50% ownership interest in Seaway Heavy Lifting; and
- purchases of property, plant and equipment of $31 million, mainly related to the Group's new-build vessel programme.

Borrowings
Borrowings increased to $858 million at 31 March 2017 from $427 million at 31 December 2016. During the quarter the Group drew down $301 million of funds against its export credit agency (ECA) senior secured facility and recognised $125 million of borrowings assumed on the acquisition of Seaway Heavy Lifting.

Business Unit Highlights

First Quarter 2017

SURF and Conventional
Revenue for the quarter was $602 million, a decrease of $39 million or 6% compared to Q1 2016.

During the quarter work progressed on the West Nile Delta phase one and two projects, the West Nile Delta platform extension and tie-in project and the Atoll Field Development, all offshore Egypt, the Maria project, offshore Norway, and the Dana Western Isles project, offshore UK. In Brazil, PLSV activity benefitted from the addition of *Seven Sun* and *Seven Cruzeiro* to the fleet.

Net operating income was $151 million in the first quarter, a decrease of $16 million or 10% compared to Q1 2016. The prior year period benefitted from the successful completion of several large projects.

i-Tech Services
Revenue for Q1 2017 was $76 million, a decrease of $27 million or 27% compared to Q1 2016. Inspection, Maintenance and Repair (IMR) activity in the quarter decreased significantly compared to Q1 2016 with lower activity in the UK, Norway and Gulf of Mexico slightly offset by increased activity in Australia. ROV support activity decreased across the fleet due to a decrease in active drill rigs except for Brazil which remained in line with Q1 2016.

Net operating income was $11 million in Q1 2017 compared to $15 million in Q1 2016.

Renewables and Heavy Lifting
Revenue was $220 million for Q1 2017 compared to $2 million in Q1 2016, revenue mainly related to the Beatrice wind farm installation project.

Net operating loss was $4 million in Q1 2017 compared to net operating income of $10 million in Q1 2016. The results for Seaway Heavy Lifting have been equity accounted up to the date of acquisition and fully consolidated thereafter. Q1 2017 reflected low levels of vessel activity during the winter season in the North Sea.

Asset Development and Activities

Vessel Utilisation

Total vessel utilisation for the quarter was 55% which was in line with Q1 2016. Active vessel utilisation, which excludes stacked vessel days, was 65% compared to 71% in Q1 2016.

As at 31 March there were 34 vessels in the total fleet, which comprised 30 active vessels and four stacked vessels. The active fleet included *Sapura 3000* which is owned and operated by the SapuraAcergy joint venture and this is excluded from the utilisation calculations. Seaway Heavy Lifting vessels were included in the vessel utilisation metrics from the date of acquisition of Seaway Heavy Lifting by the Group.

New-build vessel programme

The vessel construction programme was completed during the quarter. *Seven Cruzeiro* commenced its long-term contract with Petrobras, offshore Brazil, in January 2017. *Seven Arctic* and *Seven Kestrel* joined the active fleet during the quarter and completed their crew familiarisation process before mobilising to projects in the second quarter.

Backlog

At 31 March 2017 backlog was $5.7 billion, which was in line with 31 December 2016. Order intake, comprising new awards and project escalations totalling $0.5 billion was recorded in the quarter. In addition $0.3 billion of backlog was recognised in relation to the acquisition of Seaway Heavy Lifting and there was a favourable foreign exchange impact of $0.1 billion. New awards included the Mad Dog 2 project for BP in the US Gulf of Mexico and the Sole Development project for Cooper Energy, offshore Australia.

$4.1 billion of the backlog at 31 March 2017 related to the SURF and Conventional Business Unit, (which included $1.6 billion related to long-term day-rate contracts for PLSV's in Brazil), $0.4 billion related to the i-Tech Services Business Unit and $1.2 billion related to the Renewables and Heavy Lifting Business Unit. $2.7 billion of this backlog is expected to be executed in 2017; $1.8 billion in 2018 and $1.2 billion in 2019 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Subsea 7 S.A.
Condensed Consolidated Income Statement

(in $ millions)	Three Months Ended 31 Mar 2017 Unaudited	Three Months Ended 31 Mar 2016 Unaudited
Revenue	**897.5**	746.2
Operating expenses	**(673.9)**	(514.9)
Gross profit	**223.6**	231.3
Administrative expenses	**(47.7)**	(53.1)
Share of net (loss)/income of associates and joint ventures	**(7.3)**	15.7
Net operating income	**168.6**	193.9
Finance income	**5.3**	4.1
Remeasurement gain on business combination	**42.2**	–
Other gains and losses	**(7.8)**	14.3
Finance costs	**(2.0)**	(1.5)
Income before taxes	**206.3**	210.8
Taxation	**(60.0)**	(64.3)
Net income	**146.3**	146.5
Net income attributable to:		
Shareholders of the parent company	**141.0**	145.6
Non-controlling interests	**5.3**	0.9
	146.3	146.5

Earnings per share	**$ per share**	$ per share
Basic	**0.43**	0.45
Diluted[(a)]	**0.41**	0.42

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

Subsea 7 S.A.

Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Three Months Ended 31 Mar 2017 Unaudited	Three Months Ended 31 Mar 2016 Unaudited
Net income	**146.3**	146.5
Other comprehensive income		
Items that may be reclassified to the income statement in subsequent periods:		
Foreign currency translation gains/(losses)	**21.5**	(52.1)
Cash flow hedges:		
Net fair value losses arising	**–**	(0.1)
Reclassification adjustments for amounts recognised in the Consolidated Income Statement	**–**	(0.6)
Share of other comprehensive income of associates and joint ventures	**0.5**	0.1
Reclassification adjustment relating to business combination	**9.0**	–
Tax relating to components of other comprehensive income which may be reclassified	**0.4**	(1.0)
Other comprehensive income/(loss)	**31.4**	(53.7)
Total comprehensive income	**177.7**	92.8
Total comprehensive income attributable to:		
Shareholders of the parent company	**174.4**	89.7
Non-controlling interests	**3.3**	3.1
	177.7	92.8

Subsea 7 S.A.
Condensed Consolidated Balance Sheet

As at (in $ millions)	31 Mar 2017 Unaudited	31 Dec 2016 Audited
Assets		
Non-current assets		
Goodwill	**672.6**	627.7
Intangible assets	**51.1**	34.9
Property, plant and equipment	**4,719.8**	4,123.5
Interest in associates and joint ventures	**182.6**	378.5
Advances and receivables	**30.6**	34.4
Derivative financial instruments	**15.4**	25.2
Retirement benefit assets	**0.3**	0.3
Deferred tax assets	**16.0**	13.2
	5,688.4	5,237.7
Current assets		
Inventories	**44.8**	39.0
Trade and other receivables	**494.8**	499.6
Derivative financial instruments	**53.9**	53.2
Assets classified as held for sale	**0.8**	0.7
Construction contracts – assets	**87.0**	79.7
Other accrued income and prepaid expenses	**142.5**	216.7
Restricted cash	**21.2**	–
Cash and cash equivalents	**1,871.8**	1,676.4
	2,716.8	2,565.3
Total assets	**8,405.2**	7,803.0
Equity		
Issued share capital	**654.7**	654.7
Treasury shares	**(31.5)**	(31.5)
Paid in surplus	**3,229.3**	3,227.5
Equity reserve	**50.2**	50.2
Translation reserve	**(624.5)**	(689.1)
Other reserves	**(29.7)**	(40.2)
Retained earnings	**2,415.7**	2,411.9
Equity attributable to shareholders of the parent company	**5,664.2**	5,583.5
Non-controlling interests	**52.3**	(46.9)
Total equity	**5,716.5**	5,536.6
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**369.8**	–
Retirement benefit obligations	**24.9**	9.9
Deferred tax liabilities	**60.9**	60.7
Provisions	**73.3**	61.9
Contingent liability recognised	**7.8**	7.5
Derivative financial instruments	**17.8**	12.2
Other non-current liabilities	**51.3**	51.6
	605.8	203.8
Current liabilities		
Trade and other liabilities	**960.1**	823.7
Derivative financial instruments	**41.5**	40.7
Current tax liabilities	**173.7**	120.0
Current portion of borrowings	**488.0**	427.3
Provisions	**55.9**	108.6
Construction contracts – liabilities	**357.6**	536.2
Deferred revenue	**6.1**	6.1
	2,082.9	2,062.6
Total liabilities	**2,688.7**	2,266.4
Total equity and liabilities	**8,405.2**	7,803.0

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the three months ended 31 March 2017

Unaudited (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										
Net income	–	–	–	–	–	–	141.0	141.0	5.3	146.3
Foreign currency translation gains/(losses)	–	–	–	–	23.5	–	–	23.5	(2.0)	21.5
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	0.5	–	0.5	–	0.5
Reclassification adjustments relating to business combination	–	–	–	–	4.5	4.5	–	9.0	–	9.0
Tax relating to components of other comprehensive income	–	–	–	–	0.4	–	–	0.4	–	0.4
Total comprehensive income	**–**	**–**	**–**	**–**	**28.4**	**5.0**	**141.0**	**174.4**	**3.3**	**177.7**
Transactions with owners										
Share-based payments	–	–	1.8	–	–	–	–	1.8	–	1.8
Addition of non-controlling interest	–	–	–	–	–	–	–	–	0.2	0.2
Gain on reissuance of treasury shares	–	–	–	–	–	–	0.2	0.2	–	0.2
Reclassification adjustment relating to business combination	–	–	–	–	–	5.5	(5.5)	–	–	–
Reclassification of non-controlling interest	–	–	–	–	36.2	–	(131.9)	(95.7)	95.7	–
Total transactions with owners	**–**	**–**	**1.8**	**–**	**36.2**	**5.5**	**(137.2)**	**(93.7)**	**95.9**	**2.2**
Balance at 31 March 2017	**654.7**	**(31.5)**	**3,229.3**	**50.2**	**(624.5)**	**(29.7)**	**2,415.7**	**5,664.2**	**52.3**	**5,716.5**

For the three months ended 31 March 2016

Unaudited (in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Equity reserves	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**654.7**	**(31.7)**	**3,223.0**	**63.2**	**(452.8)**	**(55.8)**	**1,976.5**	**5,377.1**	**(30.9)**	**5,346.2**
Comprehensive income										
Net income	–	–	–	–	–	–	145.6	145.6	0.9	146.5
Foreign currency translation	–	–	–	–	(54.3)	–	–	(54.3)	2.2	(52.1)
Cash flow hedges	–	–	–	–	–	(0.7)	–	(0.7)	–	(0.7)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	0.1	–	0.1	–	0.1
Tax relating to components of other comprehensive income	–	–	–	–	(1.2)	0.2	–	(1.0)	–	(1.0)
Total comprehensive (loss)/income	**–**	**–**	**–**	**–**	**(55.5)**	**(0.4)**	**145.6**	**89.7**	**3.1**	**92.8**
Transactions with owners										
Equity component of convertible bonds	–	–	–	(9.0)	–	–	9.0	–	–	–
Share-based payments	–	–	1.9	–	–	–	–	1.9	–	1.9
Total transactions with owners	**–**	**–**	**1.9**	**(9.0)**	**–**	**–**	**9.0**	**1.9**	**–**	**1.9**
Balance at 31 March 2016	**654.7**	**(31.7)**	**3,224.9**	**54.2**	**(508.3)**	**(56.2)**	**2,131.1**	**5,468.7**	**(27.8)**	**5,440.9**

Subsea 7 S.A.
Condensed Consolidated Cash Flow Statement

(in $ millions)	Three months ended 31 Mar 2017 Unaudited	31 Mar 2016 Unaudited
Net cash generated from operating activities	**64.8**	281.4
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**–**	8.6
Purchases of property, plant and equipment	**(31.4)**	(81.9)
Purchases of intangible assets	**(1.9)**	(0.5)
Loans to third parties	**(10.2)**	–
Completion payments to acquire subsidiary	**(1.6)**	–
Loans to associates and joint ventures	**(0.2)**	(8.6)
Loan repayments from joint ventures	**–**	2.9
Interest received	**5.3**	4.1
Dividends received from associates and joint ventures	**–**	1.5
Acquisition of business (net of cash acquired)	**(110.9)**	–
Net cash used in investing activities	**(150.9)**	(73.9)
Cash flows from financing activities		
Interest paid	**(0.9)**	(1.5)
Proceeds from borrowings	**301.3**	–
Proceeds from reissuance of ordinary shares	**0.2**	–
Dividends paid to non-controlling interests	**(0.5)**	–
Repurchase of convertible bonds	**–**	(71.8)
Net cash used in financing activities	**300.1**	(73.3)
Net increase in cash and cash equivalents	**214.0**	134.2
Cash and cash equivalents at beginning of period	**1,676.4**	946.8
Movement in restricted cash balances	**(21.0)**	–
Effect of foreign exchange rate movements on cash and cash equivalents	**2.4**	4.3
Cash and cash equivalents at end of period	**1,871.8**	1,085.3

1. General information

Subsea 7 S.A. is a company registered in Luxembourg whose common shares trade on the Oslo Børs and over-the-counter as American Depositary Receipts (ADRs) in the US. The address of the registered office is 412F, route d'Esch, L-2086 Luxembourg. The Condensed Consolidated Financial Statements were authorised for issue by the Board of Directors on 26 April 2017.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period 1 January 2017 to 31 March 2017 for Subsea 7 S.A. have been prepared on a going concern basis and in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

The Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2016 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Condensed Consolidated Financial Statements are unaudited.

3. Accounting policies

Basis of accounting

The accounting policies adopted in the preparation of the Condensed Consolidated Financial Statements are consistent with the Consolidated Financial Statements for the year ended 31 December 2016.

No new International Financial Reporting Standards (IFRS) were adopted by the Group for the financial period beginning 1 January 2017. Amendments to existing IFRS, issued with an effective date of 1 January 2017 but not yet endorsed by the EU, will be adopted by the Group following their adoption by the EU.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in the Consolidated Financial Statements for the year ended 31 December 2016, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that management believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Management makes accounting judgements on the following aspects of the business as described in full in the audited Consolidated Financial Statements for the year ended 31 December 2016:

- Revenue recognition on long-term construction contracts and renewables contracts
- Revenue recognition on variation orders and claims
- Allocation of goodwill to cash-generating units (CGUs)
- Goodwill carrying amount
- Property, plant and equipment
- Recognition of provisions and disclosure of contingent liabilities
- Taxation

5. Seasonality

A significant portion of the Group's revenue is generated from work performed offshore. During certain periods of the year, the Group may be affected by adverse weather conditions such as hurricanes or tropical storms which may cause delays. Periods of adverse weather conditions usually result in low levels of activity.

6. Segment information

With effect from 1 January 2017 the Group implemented a new organisational structure comprising four Business Units: SURF and Conventional, i-Tech Services, Renewables and Heavy Lifting and Corporate. These operating segments are defined below:

SURF and Conventional

The SURF and Conventional Business Unit includes:

- Subsea Umbilicals, Risers and Flowlines (SURF) activities related to the engineering, procurement, installation and commissioning of highly complex systems offshore, including the long-term PLSV contracts in Brazil; and
- Conventional services including the fabrication, installation, extension and refurbishment of fixed and floating platforms and associated pipelines in shallow water environments.

This segment includes costs, including depreciation and impairment charges, related to vessels, equipment and offshore personnel deployed on SURF and Conventional activities. The SapuraAcergy and Normand Oceanic joint ventures are reported within this segment.

i-Tech Services

The i-Tech Services Business Unit includes activities associated with the provision of Inspection, Maintenance and Repair (IMR) 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 i-Tech Services 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, heavy lifting operations for oil and gas structures, and the decommissioning of redundant offshore structures. The results of Seaway Heavy Lifting, which became a wholly-owned subsidiary of the Group on 10 March 2017 having previously been a 50% owned joint venture, are included within this Business Unit on an equity accounting basis up to the date of acquisition and as a wholly-owned subsidiary on a fully consolidated basis thereafter.

Corporate

The Corporate Business Unit includes group-wide activities including captive insurance activities, operational support, corporate services and costs associated with discrete items such as restructuring costs. A portion of the Corporate Business Unit's costs are allocated to the other operating segments based on a percentage of their external revenue.

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

For the three months ended 31 March 2017

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	**602.0**	**75.6**	**219.9**	**–**	**897.5**
Net operating income/(loss)	**151.0**	**10.8**	**(4.0)**	**10.8**	**168.6**
Finance income					**5.3**
Remeasurement gain on business combination					**42.2**
Other gains and losses					**(7.8)**
Finance costs					**(2.0)**
Income before taxes					**206.3**

For the three months ended 31 March 2016

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	640.9	103.0	2.3	–	746.2
Net operating income	166.9	15.0	9.7	2.3	193.9
Finance income					4.1
Other gains and losses					14.3
Finance costs					(1.5)
Income before taxes					210.8

7. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the parent company by the weighted average number of common shares in issue during the period, excluding common shares purchased by the Group and held as treasury shares.

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

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

	Three Months Ended	
For the period (in $ millions)	**31 Mar 2017 Unaudited**	31 Mar 2016 Unaudited
Net income used in the calculation of diluted earnings per share	**141.0**	145.6
Earnings used in the calculation of diluted earnings per share	**141.0**	145.6

	Three Months Ended	
For the period (number of shares)	**31 Mar 2017 Unaudited**	31 Mar 2016 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	**325,836,553**	325,643,852
Convertible bonds	**15,343,431**	17,164,456
Share options, performance shares and restricted shares	**570,773**	–
Weighted average number of common shares used in the calculation of diluted earnings per share	**341,750,757**	342,808,308

	Three Months Ended	
For the period (in $ per share)	**31 Mar 2017 Unaudited**	31 Mar 2016 Unaudited
Basic earnings per share	**0.43**	0.45
Diluted earnings per share	**0.41**	0.42

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

	Three Months Ended	
For the period (number of shares)	**31 Mar 2017 Unaudited**	31 Mar 2016 Unaudited
Convertible bonds	**–**	–
Share options and performance shares	**1,432,163**	2,419,621

8. Adjusted EBITDA and Adjusted EBITDA margin

Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of the Group's performance either period-on-period or with other businesses. The Group defines Adjusted EBITDA as net income adjusted to exclude depreciation, amortisation and mobilisation costs, impairment charges or impairment reversals, finance income, other gains and losses (including gain on disposal of subsidiary, gain on distribution and remeasurement 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 have not been prepared in accordance with IFRS as adopted by the EU. These measures exclude items that can have a significant effect on the Group's income or loss and therefore should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with IFRS) as a measure of the Group's operating results or cash flows from operations (as determined in accordance with IFRS) as a measure of the Group's liquidity.

Management believes that Adjusted EBITDA and Adjusted EBITDA margin are important indicators of the operational strength and the performance of the business. These non-IFRS measures provide management with a meaningful comparative for its Business Units, as they eliminate the effects of financing, depreciation and taxation. Management believes that the presentation of Adjusted EBITDA is also useful as it is similar to measures used by companies within Subsea 7's peer group and therefore believes it to be a helpful calculation for those evaluating companies within Subsea 7's industry. Adjusted EBITDA margin may also be a useful ratio to compare performance to its competitors and is widely used by shareholders and analysts following the Group's performance. Notwithstanding the foregoing, Adjusted EBITDA and Adjusted EBITDA margin as presented by the Group may not be comparable to similarly titled measures reported by other companies.

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

	Three Months Ended	
For the period (in $ millions)	**31 Mar 2017 Unaudited**	31 Mar 2016 Unaudited
Net operating income	**168.6**	193.9
Depreciation, amortisation and mobilisation	**99.4**	90.0
Adjusted EBITDA	**268.0**	283.9
Revenue	**897.5**	746.2
Adjusted EBITDA margin	**29.9%**	38.0%

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

	Three Months Ended	
For the period (in $ millions)	**31 Mar 2017 Unaudited**	31 Mar 2016 Unaudited
Net income	**146.3**	146.5
Depreciation, amortisation and mobilisation	**99.4**	90.0
Remeasurement gain on business combination	**(42.2)**	–
Finance income	**(5.3)**	(4.1)
Other gains and losses	**7.8**	(14.3)
Finance costs	**2.0**	1.5
Taxation	**60.0**	64.3
Adjusted EBITDA	**268.0**	283.9
Revenue	**897.5**	746.2
Adjusted EBITDA margin	**29.9%**	38.0%

9. Goodwill

The movement in goodwill during the period was as follows:

(in $ millions)	Three Months Ended 31 Mar 2017 Unaudited	31 Mar 2016 Unaudited
At period beginning	**627.7**	766.8
Acquired in business combination (Note 10)	**42.0**	–
Exchange differences	**2.9**	(14.0)
At period end	**672.6**	752.8

10. Business combination

On 10 March 2017 an indirect wholly-owned subsidiary of Subsea 7 S.A. acquired 50% of the shares of Seaway Heavy Lifting Holding Limited (Seaway Heavy Lifting), a limited liability company incorporated and domiciled in Cyprus. Seaway Heavy Lifting, along with its subsidiaries, is a specialist offshore contractor involved in the delivery of services connected with three specialist segments of the offshore energy market: the installation of offshore wind farm foundations, heavy lifting operations for oil and gas structures, and the decommissioning of redundant offshore structures. The primary reason for the acquisition is to increase market share in growing markets and to strengthen the Group's participation in the areas of renewables, heavy lifting and decommissioning services.

Business combination achieved in stages

Prior to the acquisition, the Group held a 50% interest in Seaway Heavy Lifting and this transaction was therefore treated as a business combination achieved in stages. On the acquisition date the Group remeasured its previously held equity interest to a fair value of $241.4 million. This resulted in the recognition of a remeasurement gain of $42.2 million. Subsequent to remeasurement, the Group derecognised its equity interest in Seaway Heavy Lifting and recognised the separately identifiable assets and liabilities related to the acquisition as part of the calculation to determine goodwill.

As at 31 March 2017 accounting for the business combination was incomplete and as a result the Condensed Consolidated Financial Statements for the first quarter of 2017 include provisional amounts. Where required these provisional amounts will be adjusted retrospectively during the measurement period ending 9 March 2018. Provisional amounts for assets acquired and liabilities recognised, goodwill arising on acquisition and the analysis of the provisional purchase consideration were as follows:

As at (in $ millions)	10 Mar 2017 Unaudited provisional amounts
Assets	
Intangible assets	**17.4**
Property, plant and equipment	**599.5**
Deferred tax assets	**1.6**
Inventories	**4.1**
Trade and other receivables	**82.6**
Construction contracts – assets	**2.0**
Other accrued income and prepaid expenses	**1.1**
Restricted cash	**17.0**
Cash and cash equivalents	**151.1**
	876.4
Liabilities	
Borrowings	**125.0**
Retirement benefit obligation	**13.7**
Derivative financial instruments	**9.1**
Trade and other liabilities	**115.0**
Current tax liabilities	**1.6**
Construction contracts – liabilities	**127.9**
	392.3
Identifiable net assets at fair value	**484.1**
Less: deferred tax liability recognised on intangible assets	**(1.3)**
Add: goodwill arising on acquisition	**42.0**
	524.8
Consideration comprised	
Cash	**279.0**
Fair value of the Group's equity interest prior to business combination	**241.4**
Contingent consideration	**16.4**
Dividend assigned to the Group on acquisition	**(12.0)**
	524.8

Goodwill
Goodwill of $42.0 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 not expected to be deductible for tax purposes.

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

Consideration
As part of the sale and purchase agreement a dividend of $12 million, which at the time of the acquisition was attributable to the seller, was assigned to the Group. In addition a contingent consideration comprising additional cash payments, up to a maximum of $40 million, may be payable in 2021 should certain performance targets be met. The fair value of the contingent consideration at the acquisition date, based on management's analysis and judgements, was $16.4 million.

11. Treasury shares
During the first quarter, 14,577 shares were used to satisfy share-based awards. At 31 March 2017, the Group held 1,518,427 common shares as treasury shares, of which; 26,851 common shares were directly held (Q4 2016: 41,428), representing 0.01% (Q4 2016: 0.01%) of the total number of issued shares; 1,241,200 (Q4 2016: 1,241,200) common shares were held by an employee benefit trust to satisfy performance shares under the Group's 2009 Long-term Incentive Plan and 250,376 (Q4 2016: 250,376) common shares were held in a separate employee benefit trust to support specified share option awards.

12. Share repurchase programme
During the first quarter, no shares were repurchased under the Group's $200 million share repurchase programme initiated in July 2014. As at 31 March 2017, the Group had repurchased a cumulative 5,272,656 shares for a total consideration of $57.1 million under the July 2014 programme.

13. Borrowings
Senior secured facility
In January 2017, the Group drew down $301.3 million of funds against its export credit agency (ECA) senior secured facility. Amounts drawn are secured against the vessels, *Seven Arctic* and *Seven Kestrel.*

Multi-currency term loan
As at the date of acquisition of Seaway Heavy Lifting, the Group recognised a multi-currency term loan of $125.0 million, the carrying amount of this loan at 31 March 2017 was $126.3 million. The loan matures in March 2021 and incurs interest, paid semi-annually, at a margin over LIBOR and EURIBOR. The term loan is secured by a priority mortgage against the vessel, *Oleg Strashnov* and is guaranteed by selected Group companies.

Revolving credit and guarantee facility
Following the acquisition of Seaway Heavy Lifting, the Group has assumed the remaining obligations related to guarantees issued by Seaway Heavy Lifting under its EUR 100 million revolving credit and guarantee facility and its EUR 40 million guarantee facility.

14. Contingent liabilities
Contingent liabilities
Between 2009 and 2016, 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. No provision has been made in relation to these cases. A contingent liability has been disclosed for those cases where the recognition criteria has been met but where the Group does not believe the likelihood of payments is probable.

As at 31 March 2017 the contingent liability (including assessed amounts, penalties and interest) amounted to BRL 692.5 million, equivalent to $220.5 million. At 31 December 2016 the contingent liability (including assessed amounts, penalties and interest) amounted to BRL 670.1 million, equivalent to $201.4 million. The Group has challenged these assessments with some cases being dismissed by tax authorities.

As part of accounting for the business combination with Subsea 7 Inc., IFRS 3 'Business Combinations' required the Group to recognise as a provision, as of the acquisition date, the fair value of contingent liabilities assumed if there was a present obligation that arose from past events, even where payment was not probable. The value of the provision recognised within the Consolidated Balance Sheet at 31 March 2017 was $5.1 million (31 December 2016: $4.8 million). Despite the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

As part of the accounting for the business combination of Pioneer Lining Technology Limited, IFRS 3 'Business Combinations' required the Group to recognise a provision in respect of contingent consideration payable to a third party following the acquisition of intangible assets in 2009. The value of the provision recognised within the Consolidated Balance Sheet at 31 March 2017 was $2.7 million (31 December 2016: $2.7 million).

15. Cash flow from operating activities

For the year ended (in $ millions)	Three Months Ended 31 Mar 2017 Unaudited	31 Mar 2016 Unaudited
Cash flow from operating activities:		
Income before taxes	**206.3**	210.8
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**93.3**	87.4
Amortisation of intangible assets	**3.3**	1.2
Mobilisation costs	**2.8**	1.4
Adjustments for investing and financing items:		
Remeasurement gain on business combination	**(42.2)**	–
Share of net loss/(income) of associates and joint ventures	**7.3**	(15.7)
Finance income	**(5.3)**	(4.1)
Loss on disposal of property, plant and equipment	**0.3**	0.7
Gain on repurchase of convertible bonds	**–**	(3.1)
Finance costs	**2.0**	1.5
Adjustments for equity items:		
Share-based payments	**1.8**	1.9
	269.6	282.0
Changes in operating assets and liabilities:		
(Increase)/decrease in inventories	**(1.4)**	1.2
Decrease in operating receivables	**12.1**	226.6
Decrease in operating liabilities	**(205.1)**	(198.9)
	(194.4)	28.9
Income taxes paid	**(10.4)**	(29.5)
Net cash generated from operating activities	**64.8**	281.4

16. Fair value and financial instruments

Except as detailed in the following table, the carrying value of the Group's financial assets and financial liabilities recorded at amortised cost in the Condensed Consolidated Financial Statements approximate their fair values:

As at (in $ millions)	31 Mar 2017 Carrying amount Unaudited	31 Mar 2017 Fair value Unaudited	31 Dec 2016 Carrying amount Audited	31 Dec 2016 Fair value Audited
Financial liabilities				
Borrowings – convertible bonds – Level 2	**(430.2)**	**(434.7)**	(427.3)	(435.3)
Borrowings – multi-currency term loan – Level 2	**(126.3)**	**(126.3)**	–	–
Borrowings – senior secured facility – Level 2	**(301.3)**	**(301.3)**	–	–

Borrowings – convertible bonds

The fair value of the liability component of convertible bonds is determined by matching the maturity profile of the convertible bonds to market interest rates available to the Group. At the balance sheet date the interest rate available was 2.5% (31 December 2016: 2.2%).

Borrowings – multi-currency term loan

The multi-currency term loan assumed as part of the acquisition of Seaway Heavy Lifting was recognised at fair value at the acquisition date. Fair value was determined by matching the maturity profile of the term loan to market interest rates available to the Group for borrowings with similar security, maturity and repayment profiles.

Borrowings – senior secured facility

The fair value of the senior secured facility is determined by matching the maturity profile of the amounts utilised under the facility to market interest rates available to the Group for borrowings with similar security, maturity and repayment profiles. At the reporting date interest charged under the facility is representative of market rates currently available to the Group and therefore the carrying value approximates fair value.

Fair value measurements

Fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market date (unobservable inputs).

Recurring and non-recurring fair value measurements

Recurring fair value measurements are those that IFRSs require at the end of each reporting period and non-recurring fair value measurements are those that IFRSs require or permit in particular circumstances.

Assets and liabilities which are measured at fair value in the Condensed Consolidated Balance Sheet and their level of the fair value hierarchy were as follows:

As at (in $ millions)	2017 31 Mar Level 2	2017 31 Mar Level 3	2016 31 Dec Level 2	2016 31 Dec Level 3
Recurring fair value measurements				
Financial assets:				
Financial assets at fair value through profit or loss – derivative instruments	**69.3**	**–**	78.4	–
Financial liabilities:				
Financial liabilities at fair value through profit or loss – derivative instruments	**(59.3)**	**–**	(52.9)	–
Contingent consideration	**–**	**(28.0)**	–	(11.5)

During the period ended 31 March 2017 there were no transfers between levels of the fair value hierarchy. The Group accounts for transfers between levels of the fair value hierarchy from the date of the event or change in circumstance that caused the transfer.

Fair value techniques and inputs

Financial assets and liabilities at fair value through profit or loss

The Group's financial assets and liabilities fair value through profit or loss comprised:

- Forward foreign exchange contracts and embedded derivatives
  The fair value of outstanding forward foreign exchange contracts and embedded derivatives was calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.
- Contingent consideration
  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.

17. Related party transactions

The Subsea 7 S.A. Group is an associate of Siem Industries Inc., and is equity accounted for within Siem Industries Inc.'s consolidated financial statements.

As a result of the acquisition of Seaway Heavy Lifting Holding Limited the Group has assumed full rights and obligations relating to pre-existing contractual arrangements in connection with the Beatrice wind farm installation project. These arrangements, which were contracted on an arm's length basis, between Seaway Heavy Lifting Offshore Contractors BV, a subsidiary of Seaway Heavy Lifting Holding Limited, and Siem Offshore Contractors UK Limited, ultimately controlled by Siem Industries Inc. are now considered to represent a related party transaction for the Subsea 7 S.A. Group.

18. Post balance sheet events

Annual General Meeting and Dividend

The Annual General Meeting of shareholders of Subsea 7 S.A. took place on 12 April 2017. All resolutions proposed by the Board of Directors were approved by shareholders, including the resolution to approve the payment of a special dividend of NOK 5.00 per share, equivalent to a total dividend of approximately $190 million. The dividend was paid on 26 April 2017.

Convertible bonds

On 6 April 2017, the Group repurchased bonds totalling $55 million (par value) of the 2017 1.00% convertible bonds due 2017 for $54.7 million.