Subsea 7 S.A. Announces First Quarter 2019 Results

Luxembourg – 2 May 2019 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY, ISIN: LU0075646355) announced today results for the first quarter which ended 31 March 2019.

First Quarter highlights

- New awards and escalations totalled $1.1 billion, raising order backlog to $5.2 billion
- Revenue of $859 million and Adjusted EBITDA of $111 million reflecting continued cost discipline and good execution of awards signed at lower prices during the downturn
- Invested for the future with capital expenditure totalling $68 million including an extensive dry-docking of the pipelay vessel *Seven Borealis* and acquisition of diving support vessel (DSV), *Seven Pegasus*
- Net cash position of $413 million, excluding IFRS 16 lease liabilities, after $75 million spent on share repurchases in the first quarter

	Three Months Ended	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**31 March 2019 Unaudited**	31 March 2018 Unaudited
Revenue	**859**	809
Adjusted EBITDA[(a)] (unaudited)	**111**	103
Adjusted EBITDA margin[(a)] (unaudited)	**13%**	13%
Net operating loss	**(10)**	(8)
Net loss	**(19)**	(18)
Earnings per share – in $ per share		
Basic	**(0.06)**	(0.03)
Diluted[(b)]	**(0.06)**	(0.03)
As at (in $ millions)	**31 March 2019 Unaudited**	31 Dec 2018 Audited
Backlog - unaudited[(c)]	**5,192**	4,907
Cash and cash equivalents	**666**	765
Borrowings	**(253)**	(258)
Net cash[(d)]	**413**	507

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

(c) Backlog at 31 March 2019 and 31 December 2018 is unaudited and is a non-IFRS measure.

(d) Net cash is a non-IFRS measure and is defined as cash and cash equivalents less borrowings. At 31 March 2019, IFRS 16 lease liabilities of $412 million were not included in net cash.

Jean Cahuzac, Chief Executive Officer, said:

'Tendering activity remained robust in the first quarter of 2019. We continued to experience a steady increase in interest from our clients to engage early and create the right solutions for SURF projects on both an integrated and stand-alone basis. Our strong client relationships and track record of reliable delivery helped us to secure a book-to-bill ratio of 1.3 and three FEED (Front End Engineering and Design) awards that are expected to progress to EPIC projects in due course.

We are now guiding for 2019 Group revenue to be broadly in line with 2018 as we continue to experience a gradual volume-led recovery in integrated and stand-alone SURF projects. Our guidance on Adjusted EBITDA being lower in 2019 compared to the prior year remains unchanged. We have started to see increased pricing on tenders for major new projects, but this will take time to materialise in our financial results due to an anticipated two to three year time lag, on average, between tender, award and execution.'

Operational Highlights

SURF and Conventional projects progressed well in the quarter, led by high utilisation of the four pipelay support vessels (PLSVs) working offshore Brazil on long-term contracts. Good progress was made on the Snorre project, offshore Norway, with Pipeline Bundle construction underway at the fabrication yard in Wick, UK. Also offshore Norway, the Aerfugl project progressed with welding and system qualification. Offshore Egypt, work continued on the West Nile Delta Phase Two (GFR) project with preparations for flexible pipelay. In the US Gulf of Mexico, the Katmai and Manuel projects, both Subsea Integration Alliance awards, progressed well with procurement and engineering. Offshore Nigeria, the shallow water PUPP project commenced a pipelay campaign with the vessel *Seven Antares.*

Life of Field activity improved with ROV Inspection, Repair and Maintenance (IRM) services in the Gulf of Mexico, the North Sea and the Caspian Sea. ROV activity on drill rigs remained low, in line with the global market.

Renewables and Heavy Lifting operations included completion and commissioning activities for the Borkum 2 wind farm project, offshore Germany, and mobilisation for the transport and installation of foundations for the Yunlin project, offshore Taiwan.

Total vessel utilisation was 68% in the quarter, 16 percentage points higher than the prior year period partly due to higher levels of Diving Support and Inspection, Repair and Maintenance (IRM) activity. There were 34 vessels in the fleet at the quarter end following the timely acquisition of a DSV, *Seven Pegasus*, in January.

Financial highlights

First quarter revenue of $859 million and Adjusted EBITDA of $111 million resulted in an Adjusted EBITDA margin of 13%. The higher revenue in the SURF and Conventional business unit compared to the prior year period more than offset the significantly lower revenue in the Renewables and Heavy Lifting business unit, which declined due to the substantial completion of the EPIC Beatrice wind farm project in 2018. Adjusted EBITDA benefitted by $27 million compared to the prior year period due to the implementation of IFRS 16 'Leases' as of 1 January 2019. Net loss of $19 million included other gains and losses of $17 million, mostly due to net foreign currency losses, and a tax credit of $10 million. Diluted loss per share was $0.06.

Subsea 7's financial and liquidity profile remained strong with cash and cash equivalents of $666 million at 31 March 2019 and net cash of $413 million, excluding IFRS 16 lease liabilities of $412 million. Cash generated from operating activities of $58 million included a $6 million increase in net operating liabilities and cash tax paid of $36 million. Subsea 7 has a structured approach to capital discipline that prioritises investment in the business and financial stability but also commits to return surplus cash to shareholders. In the first quarter, Subsea 7 invested in its fleet with the acquisition of a DSV as well as the ongoing construction of a new-build reel-lay vessel for delivery in early 2020 and an extensive dry docking of the global-enabler vessel, *Seven Borealis*. In addition, $75 million was spent on share repurchases. On 17 April 2019, the special dividend of NOK 1.50 per share was approved at the AGM and authority to repurchase and cancel shares was renewed at the EGM.

Order intake and contract awards

At 31 March 2019, order backlog of $5.2 billion included new awards and escalations totalling $1.1 billion, resulting in a book-to-bill ratio of 1.3. Announced awards in the first quarter comprised a five year IRM services contract for BP and the Arran project for Shell, both offshore UK, and the Berri-Zuluf project, offshore Saudi Arabia, under the Long Term Agreement with Saudi Aramco. In addition, Subsea 7 announced three FEED contracts for Woodside that are expected to convert to EPIC project awards after final investment decision by the client.

Outlook

The outlook for offshore oil and gas project awards remains positive with a steady improvement in tendering and award activity in the market, including progress on several large greenfield projects. Subsea 7's pricing on new tenders has started to improve from a low level and over time is expected to return to more normal levels, supported by value created though proprietary technology, strong relationships and creative and effective solutions. There is a good level of tendering activity for offshore wind farms and Subsea 7 is well placed among strong competition.

Subsea 7's guidance for the full year 2019 has been updated. Revenue is now expected to be broadly in line with 2018, Adjusted EBITDA is still 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', as detailed in note 3 to the Condensed Consolidated Financial Statements.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 2 May 2019

Time: 12:00 UK Time

Conference ID: 19062623#

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

Replay Facility Details

A replay facility (with conference ID 301273865#) will be available from:

Date: 2 May 2019
Time: 17:00 UK Time

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

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Special Note Regarding Forward-Looking Statements

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

First Quarter 2019

Revenue
Revenue for the quarter was $0.9 billion, in line with Q1 2018. Higher activity levels in the SURF and Conventional business unit, with increased operations offshore Africa, Norway, UK and in the Gulf of Mexico were partially offset by lower activity levels in the Renewables and Heavy Lifting business unit. Revenue in the Life of Field business unit increased compared with Q1 2018 reflecting higher activity levels.

Adjusted EBITDA
Adjusted EBITDA and Adjusted EBITDA margin for the quarter were $111 million and 13% respectively, compared to $103 million and 13% in Q1 2018. Adjusted EBITDA in Q1 2019 benefitted by $27 million compared to the prior year period due to the implementation of IFRS 16 'Leases'. Adjusted EBITDA margin in Q1 2019 reflected lower pricing on projects awarded during the downturn within the SURF and Conventional business unit and lower activity levels within the Renewables and Heavy Lifting business unit.

Net operating loss
Net operating loss for the quarter was $10 million, compared to a net operating loss of $8 million in Q1 2018. The SURF and Conventional business unit showed a decrease in net operating income reflecting lower pricing on projects awarded during the downturn. The increased net operating loss in the Renewables and Heavy Lifting business unit reflected lower activity levels.

Net loss
Net loss was $19 million in the quarter, compared to a net loss of $18 million in Q1 2018. In Q1 2019, the entire net loss was attributable to the parent company's shareholders compared to $10 million in the prior year period.

Earnings per share
Diluted loss per share was 6 cents in Q1 2019 compared to diluted loss per share of 3 cents in Q1 2018, calculated using a weighted average number of shares of 316 million and 327 million respectively.

Cash and cash equivalents
Cash and cash equivalents was $666 million at 31 March 2019, a decrease of $99 million in the quarter. The movement in cash and cash equivalents during the quarter was mainly attributable to:

- net cash generated from operating activities of $58 million

offset by:

- repurchases of shares at a cost of $75 million; and
- purchases of property, plant and equipment of $66 million.

Borrowings
Borrowings decreased to $253 million at 31 March 2019 from $258 million at 31 December 2018 due to scheduled repayments.

Business Unit Highlights

First Quarter 2019

SURF and Conventional
Revenue for the quarter was $747 million, an increase of $162 million or 28% compared to Q1 2018. The increase in revenue was driven by higher activity levels and increased vessel utilisation compared to the prior year period.

During the quarter work progressed on the West Nile Delta Phase Two project, offshore Egypt, the Snorre and Aerfugl projects, offshore Norway, the Hasbah project and 3PDMs project, offshore Saudi Arabia, the PUPP project, offshore Nigeria, the Manuel and Katmai projects, offshore US, and the Sole project, offshore Australia. In Brazil, there were high levels of PLSV utilisation under long-term contracts with Petrobras.

Net operating income was $4 million in the quarter, a decrease of $8 million or 66% compared to Q1 2018. The decrease in net operating income reflected the lower pricing on projects awarded during the downturn.

Life of Field
Revenue for Q1 2019 was $60 million, an increase of $8 million or 16% compared to Q1 2018. The increase was primarily driven by Inspection, Repair and Maintenance (IRM) activities, including operations offshore Azerbaijan.

Net operating loss was $3 million in Q1 2019 compared to net operating loss of $4 million in Q1 2018.

Renewables and Heavy Lifting
Revenue was $53 million in Q1 2019 compared to $173 million in Q1 2018. The reduction in revenue was primarily due to reduced activity on the Beatrice wind farm project, offshore UK, which is now operationally complete. Net operating loss was $9 million in Q1 2019 compared to a net operating loss of $4 million in Q1 2018, reflecting lower activity levels compared with the prior year period partly mitigated by the benefits of various restructuring initiatives.

Asset Development and Activities

Vessel Utilisation

Total Vessel Utilisation for the quarter was 68% compared with 52% in Q1 2018.

At 31 March 2019 there were 34 vessels in the fleet, comprising 31 active vessels, two stacked vessels and one vessel under construction.

Asset Development

During the quarter, the diving support vessel, *Seven Pegasus,* was acquired. The vessel is expected to commence operations in Q2 2019. Construction continued on the Group's new reel-lay vessel, which will be named *Seven Vega*.

Backlog

At 31 March 2019 backlog was $5.2 billion, an increase of $0.3 billion compared with 31 December 2018. Order intake, including escalations, totalling $1.1 billion was recorded in the quarter. Favourable foreign exchange movements of approximately $50 million were recognised during the quarter. New awards included the Berri-Zuluf project, offshore Saudi Arabia, the Arran project, offshore UK, and a long-term IRM contract for BP, offshore UK.

$4.2 billion of the backlog at 31 March 2019 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), $0.6 billion related to the Life of Field business unit and $0.4 billion related to the Renewables and Heavy Lifting business unit. $2.5 billion of this backlog is expected to be executed in 2019, $1.9 billion in 2020 and $0.8 billion in 2021 and thereafter. Backlog related to associates and joint ventures is excluded from these figures.

Subsea 7 S.A.
Condensed Consolidated Income Statement

(in $ millions)	Three months ended 31 Mar 2019 Unaudited	Three months ended 31 Mar 2018 Unaudited
Revenue	**859.2**	809.2
Operating expenses	**(811.3)**	(735.7)
Gross profit	**47.9**	73.5
Administrative expenses	**(58.4)**	(74.4)
Share of net income of associates and joint ventures	**0.3**	(6.9)
Net operating loss	**(10.2)**	(7.8)
Finance income	**4.0**	4.9
Other gains and losses	**(16.7)**	(22.6)
Finance costs	**(5.9)**	(3.8)
Loss before taxes	**(28.8)**	(29.3)
Taxation	**10.0**	11.6
Net loss	**(18.8)**	(17.7)
Net income attributable to:		
Shareholders of the parent company	**(19.0)**	(10.5)
Non-controlling interests	**0.2**	(7.2)
	(18.8)	(17.7)

Earnings per share	**$ per share**	$ per share
Basic	**(0.06)**	(0.03)
Diluted[(a)]	**(0.06)**	(0.03)

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

Subsea 7 S.A.
Condensed Consolidated Statement of Comprehensive Income

(in $ millions)	Three Months Ended 31 Mar 2019 Unaudited	Three Months Ended 31 Mar 2018 Unaudited
Net loss	**(18.8)**	(17.7)
Other comprehensive income		
Items that may be reclassified to the income statement in subsequent periods:		
Foreign currency translation	**52.6**	82.0
Reclassification adjustments relating to disposal of subsidiary	**1.2**	–
Tax relating to components of other comprehensive income which may be reclassified	**(1.5)**	1.9
Other comprehensive income	**52.3**	83.9
Total comprehensive income	**33.5**	66.2
Total comprehensive income attributable to:		
Shareholders of the parent company	**33.3**	72.5
Non-controlling interests	**0.2**	(6.3)
	33.5	66.2

Subsea 7 S.A.

Condensed Consolidated Balance Sheet

As at (in $ millions)	**31 Mar 2019 Unaudited**	31 Dec 2018 Audited
Assets		
Non-current assets		
Goodwill	**792.5**	751.3
Intangible assets	**31.9**	31.9
Property, plant and equipment	**4,599.0**	4,568.9
Right-of-use assets	**405.9**	–
Interest in associates and joint ventures	**24.1**	45.2
Advances and receivables	**37.0**	38.4
Derivative financial instruments	**0.5**	0.7
Other financial assets	**7.2**	7.2
Retirement benefit assets	**0.1**	0.1
Deferred tax assets	**28.0**	28.9
	5,926.2	5,472.6
Current assets		
Inventories	**33.9**	32.0
Trade and other receivables	**676.4**	607.9
Derivative financial instruments	**2.9**	10.5
Other financial assets	**–**	15.9
Assets classified as held for sale	**0.3**	0.4
Construction contracts – assets	**482.7**	494.9
Other accrued income and prepaid expenses	**168.6**	165.7
Restricted cash	**8.2**	4.1
Cash and cash equivalents	**665.9**	764.9
	2,038.9	2,096.3
Total assets	**7,965.1**	7,568.9
Equity		
Issued share capital	**654.7**	654.7
Treasury shares	**(169.5)**	(95.0)
Paid in surplus	**2,827.7**	2,826.6
Translation reserve	**(566.1)**	(618.4)
Other reserves	**(26.3)**	(26.3)
Retained earnings	**2,922.8**	2,941.8
Equity attributable to shareholders of the parent company	**5,643.3**	5,683.4
Non-controlling interests	**38.6**	38.4
Total equity	**5,681.9**	5,721.8
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**227.5**	233.6
Non-current lease liabilities	**313.2**	–
Retirement benefit obligations	**20.8**	30.9
Deferred tax liabilities	**38.6**	39.5
Provisions	**93.9**	98.7
Contingent liability recognised	**6.7**	6.0
Derivative financial instruments	**2.7**	3.0
Other non-current liabilities	**33.3**	34.6
	736.7	446.3
Current liabilities		
Trade and other liabilities	**1,029.6**	978.1
Derivative financial instruments	**5.8**	4.1
Current tax liabilities	**91.1**	103.4
Current portion of borrowings	**25.3**	24.6
Current lease liabilities	**98.6**	–
Provisions	**116.6**	117.4
Construction contracts – liabilities	**172.8**	167.8
Deferred revenue	**6.7**	5.4
	1,546.5	1,400.8
Total liabilities	**2,283.2**	1,847.1
Total equity and liabilities	**7,965.1**	7,568.9

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the three months ended 31 March 2019

Unaudited (in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	**654.7**	**(95.0)**	**2,826.6**	**(618.4)**	**(26.3)**	**2,941.8**	**5,683.4**	**38.4**	**5,721.8**
Comprehensive income/(loss)									
Net (loss)/income	–	–	–	–	–	(19.0)	(19.0)	0.2	(18.8)
Foreign currency translation	–	–	–	52.6	–	–	52.6	–	52.6
Disposal of subsidiary	–	–	–	1.2	–	–	1.2	–	1.2
Tax relating to components of other comprehensive income	–	–	–	(1.5)	–	–	(1.5)	–	(1.5)
Total comprehensive income/(loss)	**–**	**–**	**–**	**52.3**	**–**	**(19.0)**	**33.3**	**0.2**	**33.5**
Transactions with owners									
Shares repurchased	–	(74.5)	–	–	–	–	(74.5)	–	(74.5)
Share-based payments	–	–	1.1	–	–	–	1.1	–	1.1
Total transactions with owners	**–**	**(74.5)**	**1.1**	**–**	**–**	**–**	**(73.4)**	**–**	**(73.4)**
Balance at 31 March 2019	**654.7**	**(169.5)**	**2,827.7**	**(566.1)**	**(26.3)**	**2,922.8**	**5,643.3**	**38.6**	**5,681.9**

Subsea 7 S.A.
Condensed Consolidated Statement of Changes in Equity
For the three months ended 31 March 2018

Unaudited (in $ millions)	Issued share capital	Treasury shares	Paid in surplus	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017	**654.7**	**(19.7)**	**3,033.7**	**(523.6)**	**(29.3)**	**2,776.8**	**5,892.6**	**48.4**	**5,941.0**
Adjustment on implementation of IFRS 9 and IFRS 15	–	–	–	–	–	1.0	1.0	–	1.0
Balance at 1 January 2018	**654.7**	**(19.7)**	**3,033.7**	**(523.6)**	**(29.3)**	**2,777.8**	**5,893.6**	**48.4**	**5,942.0**
Comprehensive income/(loss)									
Net loss	–	–	–	–	–	(10.5)	(10.5)	(7.2)	(17.7)
Foreign currency translation gains	–	–	–	81.1	–	–	81.1	0.9	82.0
Tax relating to components of other comprehensive income	–	–	–	1.9	–	–	1.9	–	1.9
Total comprehensive income/(loss)	**–**	**–**	**–**	**83.0**	**–**	**(10.5)**	**72.5**	**(6.3)**	**66.2**
Transactions with owners									
Share-based payments	–	–	1.4	–	–	–	1.4	–	1.4
Shares reallocated relating to share-based payments	–	0.9	–	–	–	–	0.9	–	0.9
Loss on reissuance of treasury shares	–	–	–	–	–	(0.5)	(0.5)	–	(0.5)
Total transactions with owners	**–**	**0.9**	**1.4**	**–**	**–**	**(0.5)**	**1.8**	**–**	**1.8**
Balance at 31 March 2018	**654.7**	**(18.8)**	**3,035.1**	**(440.6)**	**(29.3)**	**2,766.8**	**5,967.9**	**42.1**	**6,010.0**

Subsea 7 S.A.

Condensed Consolidated Cash Flow Statement

(in $ millions)	Three Months Ended 31 Mar 2019 Unaudited	Three Months Ended 31 Mar 2018 Unaudited
Net cash generated from operating activities	**58.1**	5.8
Cash flows from investing activities		
Net (costs)/proceeds from disposal of property, plant and equipment	**(0.3)**	0.1
Purchases of property, plant and equipment	**(66.4)**	(78.0)
Purchases of intangible assets	**(1.1)**	(0.3)
Loans to associates and joint ventures	**(0.1)**	(0.1)
Interest received	**4.0**	4.9
Acquisition of business (net of cash and borrowings acquired)	**(8.0)**	(5.0)
Acquisition of interest in joint venture	**–**	(18.9)
Proceeds from disposal of subsidiary	**4.6**	–
Proceeds from sale of other financial assets	**21.4**	–
Net cash used in investing activities	**(45.9)**	(97.3)
Cash flows from financing activities		
Interest paid	**(2.7)**	(3.3)
Repayment of borrowings	**(6.2)**	(6.2)
Proceeds from reissuance of ordinary shares	**–**	0.4
Cost of share repurchases	**(74.5)**	–
Payments related to lease liabilities	**(23.7)**	–
Dividends paid to non-controlling interests	**(0.4)**	–
Net cash used in financing activities	**(107.5)**	(9.1)
Net decrease in cash and cash equivalents	**(95.3)**	(100.6)
Cash and cash equivalents at beginning of year	**764.9**	1,109.1
Increase in restricted cash	**(4.1)**	(0.9)
Effect of foreign exchange rate movements on cash and cash equivalents	**0.4**	(0.2)
Cash and cash equivalents at end of period	**665.9**	1,007.4

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 1 May 2019.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period from 1 January 2019 to 31 March 2019 for Subsea 7 S.A. have been prepared on a going concern basis and in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU).

The Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2018 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Condensed Consolidated Financial Statements are unaudited.

3. Accounting policies

Basis of accounting

The accounting policies adopted in the preparation of the Condensed Consolidated Financial Statements are consistent with the Consolidated Financial Statements for the year ended 31 December 2018 except as detailed below.

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

IFRS 16 'Leases'

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

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

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

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

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

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

- applied the requirements of IFRS 16 to all contracts previously identified as leases under IAS 17 'Leases';
- excluded initial direct costs from measurement of the right-of-use asset;
- applied discount rates on a portfolio basis where leases are similar in nature and have similar remaining lease terms;
- relied upon the previous assessment of whether a lease is onerous as an alternative to performing an impairment review. Where applicable the carrying amount of the right-of-use asset has been adjusted by the carrying amount of the onerous lease provision. This resulted in a $6 million reduction in the right-of-use asset recognised at implementation; and
- applied the short-term lease exemption to all leases with durations which terminate within 12 months of the implementation date, with the exception of vessel leases which at inception were greater than 12 months, which are in substance long-term agreements.

The impact on the Consolidated Income Statement, for the three month period ending 31 March 2019, was to reduce operating lease expense by $26.8 million, recognise lease amortisation charges of $23.9 million and lease finance costs of $3.9 million.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in the Consolidated Financial Statements for the year ended 31 December 2018, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other assumptions that management believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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

Management makes accounting judgements on the following aspects of the business as described in full in the audited Consolidated Financial Statements for the year ended 31 December 2018:

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

5. Seasonality

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

6. Segment information

For management and reporting purposes, the Group is organised into four business units: SURF and Conventional, Life of Field, Renewables and Heavy Lifting and Corporate. These operating segments are defined as follows:

SURF and Conventional

The SURF and Conventional business unit includes:

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

This segment includes costs, including depreciation, amortisation and impairment charges, related to owned and long-term leased vessels, equipment and offshore personnel deployed on SURF and Conventional activities.

Life of Field

The Life of Field business unit includes activities associated with the provision of Inspection, Repair and Maintenance (IRM) services, integrity management of subsea infrastructure and remote intervention support. This segment includes costs, including depreciation, amortisation and impairment charges, related to owned and long-term leased vessels, equipment and offshore personnel deployed on Life of Field activities. The Eidesvik Seven joint venture is reported within this segment.

Renewables and Heavy Lifting

The Renewables and Heavy Lifting business unit includes activities related to three specialist segments of the offshore energy market: the installation of offshore wind farm foundations and inter-array cables, heavy lifting operations for oil and gas structures, and the decommissioning of redundant offshore structures. This segment includes costs, including depreciation, amortisation and impairment charges, related to owned and long-term leased vessels, equipment and offshore personnel deployed on Renewables and Heavy Lifting activities.

Corporate

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

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

For the three months ended 31 March 2019

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	**598.8**	**–**	**53.1**	**–**	**651.9**
Day-rate projects	**147.7**	**59.6**	**–**	**–**	**207.3**
	746.5	**59.6**	**53.1**	**–**	**859.2**
Net operating income/(loss)	**4.4**	**(3.2)**	**(9.2)**	**(2.2)**	**(10.2)**
Finance income					**4.0**
Other gains and losses					**(16.7)**
Finance costs					**(5.9)**
Loss before taxes					**(28.8)**

For the three months ended 31 March 2018

(in $ millions) Unaudited	SURF and Conventional	Life of Field	Renewables and Heavy Lifting	Corporate	Total
Revenue					
Lump-sum projects	400.6	0.2	173.4	–	574.2
Day-rate projects	183.7	51.3	–	–	235.0
	584.3	51.5	173.4	–	809.2
Net operating income/(loss)	12.8	(3.5)	(4.4)	(12.7)	(7.8)
Finance income					4.9
Other gains and losses					(22.6)
Finance costs					(3.8)
Loss before taxes					(29.3)

7. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net loss 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 2019 Unaudited**	31 Mar 2018 Unaudited
Net loss attributable to shareholders of the parent company	**(19.0)**	(10.5)
Earnings used in the calculation of diluted earnings per share	**(19.0)**	(10.5)

	Three Months Ended	
For the period (number of shares)	**31 Mar 2019 Unaudited**	31 Mar 2018 Unaudited
Weighted average number of common shares used in the calculation of basic and diluted earnings per share	**315,550,356**	326,518,022

	Three Months Ended	
For the period (in $ per share)	**31 Mar 2019 Unaudited**	31 Mar 2018 Unaudited
Basic earnings per share	**(0.06)**	(0.03)
Diluted earnings per share	**(0.06)**	(0.03)

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 2019 Unaudited**	31 Mar 2018 Unaudited
Share options and performance shares	**1,975,050**	1,983,066

8. Adjusted EBITDA and Adjusted EBITDA margin

Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is a non-IFRS measure that represents net income before additional specific items that are considered to impact the comparison of the Group's performance either period-on-period or with other businesses. The Group defines Adjusted EBITDA as net income adjusted to exclude depreciation and amortisation costs, including amortisation of prepaid mobilisation expenses and amortisation of intangible assets, impairment charges or impairment reversals, finance income, remeasurement gains and losses on business combinations, other gains and losses (including foreign exchange gains and losses, gains on disposal of subsidiaries, gains and losses resulting from remeasurement of contingent consideration, gains on distributions and bargain purchase gains on business combinations), finance costs and taxation. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenue, expressed as a percentage.

The items excluded from Adjusted EBITDA represent items which are individually or collectively material but which are not considered representative of the performance of the business during the periods presented. Other gains and losses principally relate to disposals of investments, property, plant and equipment and net foreign exchange gains or losses. Impairments of assets represent the excess of the assets' carrying amount over the amount that is expected to be recovered from their use in the future or their sale.

Adjusted EBITDA and Adjusted EBITDA margin are not recognised as a measurement of performance under IFRS as adopted by the EU. These measures exclude items that can have a significant effect on the Group's income or loss and therefore should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with IFRS) as a measure of the Group's operating results or cash flows from operations (as determined in accordance with IFRS) as a measure of the Group's liquidity.

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

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

For the period (in $ millions)	Three Months Ended 31 Mar 2019 Unaudited	Three Months Ended 31 Mar 2018 Unaudited
Net operating loss	**(10.2)**	(7.8)
Depreciation, amortisation and mobilisation	**121.3**	110.8
Adjusted EBITDA	**111.1**	103.0
Revenue	**859.2**	809.2
Adjusted EBITDA margin	**12.9%**	12.7%

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

For the period (in $ millions)	Three Months Ended 31 Mar 2019 Unaudited	Three Months Ended 31 Mar 2018 Unaudited
Net loss	**(18.8)**	(17.7)
Depreciation, amortisation and mobilisation	**121.3**	110.8
Finance income	**(4.0)**	(4.9)
Other gains and losses	**16.7**	22.6
Finance costs	**5.9**	3.8
Taxation	**(10.0)**	(11.6)
Adjusted EBITDA	**111.1**	103.0
Revenue	**859.2**	809.2
Adjusted EBITDA margin	**12.9%**	12.7%

9. Goodwill

The movement in goodwill during the period was as follows:

(in $ millions)	Three Months Ended 31 Mar 2019 Unaudited	Three Months Ended 31 Mar 2018 Unaudited
At year beginning	**751.3**	700.8
Adjustments to identifiable net assets at fair value subsequent to initial recognition	**–**	(0.7)
Acquired in business combination	**25.6**	–
Exchange differences	**15.6**	22.1
At period end	**792.5**	722.2

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

10. Treasury shares

During the first quarter, no shares were used to satisfy share-based awards. At 31 March 2019, the Group directly held 14,795,944 shares (Q4 2018: 8,240,024) as treasury shares, representing 4.52% (Q4 2018: 2.52%) of the total number of issued shares.

11. Share repurchase programme

During the first quarter, 4,541,000 shares were repurchased for a total consideration of $49.8 million under the Group's $200 million share repurchase programme initiated in July 2014. On 19 February 2019, the Group completed this share repurchase programme. The Group had repurchased a cumulative 17,963,355 shares for a total consideration of $199.7 million under this programme.

On 27 February 2019 the Board of Directors authorised a new share repurchase programme of up to $200 million to be carried out over the next two years. A total of 2,014,920 shares for a total consideration of $24.7 million were repurchased under this programme during the first quarter.

12. Commitments and contingent liabilities

Commitments

At 31 March 2019, the Group had significant contractual commitments totalling $201.0 million, mainly in relation to the remaining construction of *Seven Vega*, a new reel-lay vessel and associated pipe-lay equipment.

Contingent liabilities not recognised in the Consolidated Balance Sheet

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

One of the amounts contested by the Group is in respect of an audit by Rivers State, Nigeria into the Group's Nigerian operations in the years 2010 to 2014, with particular regard to payroll taxes for offshore personnel. At 31 March 2019, there was a contingent liability relating to assessments received from Rivers State in respect of such personnel, which totalled NGN 34,190 million, equivalent to $94.4 million (31 December 2018: NGN 34,190 million, equivalent to $94.2 million). The Group has challenged the assessments and is currently involved in court proceedings in Nigeria to release assets sequestered by Rivers State authorities in respect of one of the assessments totalling NGN 3,352 million, equivalent to $9.3 million. The Group does not believe the likelihood of payments is probable and no provision has been recognised in the Consolidated Balance Sheet in respect of the assessments resulting from the Rivers State audits.

Between 2009 and 2018, the Group's Brazilian businesses were audited and formally assessed for ICMS and federal taxes (including import duty) by the Brazilian state and federal tax authorities. The amount assessed, including penalties and interest, at 31 March 2019 amounted to BRL 757.9 million, equivalent to $195.7 million (31 December 2018: BRL 750.7 million, equivalent to $192.6 million). The Group has challenged these assessments. A contingent liability has been disclosed for the total amounts assessed as the disclosure criteria have been met however the Group does not believe that the likelihood of payment is probable.

At 31 March 2018, the Group's Brazilian business had received a number of labour and civil tax claims. The amount assessed at 31 March 2019 amounted to BRL 167.0 million, equivalent to $43.1 million (31 December 2018: BRL 136.4 million, equivalent to $35.0 million.) The Group has challenged these claims. A contingent liability has been disclosed for the total amounts assessed as the disclosure criteria have been met however the Group does not believe that the likelihood of payment is probable.

Contingent liabilities recognised in the Consolidated Balance Sheet

As part of accounting for the business combination with Subsea 7 Inc., IFRS 3 'Business combinations' required the Group to recognise as a provision, as of the acquisition date, the fair value of contingent liabilities assumed if there was a present obligation that arose from past events, even where payment was not probable. The value of the provision recognised within the Consolidated Balance Sheet at 31 March 2019 was $4.2 million (31 December 2018: $4.1 million). While complying with the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

As part of the accounting for the business combination of Pioneer Lining Technology Limited, IFRS 3 'Business combinations' required the Group to recognise a provision in respect of contingent consideration payable to a third party following the acquisition of intangible assets in 2009. The value of the provision recognised within the Consolidated Balance Sheet at 31 March 2019 was $2.0 million (31 December 2018: $1.9 million). While complying with the requirements of IFRS 3, the Group continues to believe that payment relating to the remaining recognised contingent liabilities is not probable.

13. Cash flow from operating activities

For the period ended (in $ millions)	Three Months Ended 31 Mar 2019 Unaudited	 31 Mar 2018 Unaudited
Cash flow from operating activities:		
Loss before taxes	**(28.8)**	(29.3)
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**91.4**	101.3
Amortisation of right-of-use assets	**23.9**	–
Amortisation of intangible assets	**3.6**	8.5
Amortisation of mobilisation costs	**2.4**	1.0
Gain on disposal of other financial assets measured at fair value through profit or loss	**(5.5)**	–
Adjustments for investing and financing items:		
Remeasurement loss on business combination	**1.1**	–
Gain on disposal of subsidiary	**(4.3)**	–
Share of net (income)/loss of associates and joint ventures	**(0.3)**	6.9
Finance income	**(4.0)**	(4.9)
Net loss on disposal of property, plant and equipment	**–**	0.2
Finance costs	**5.9**	3.8
Adjustments for equity items:		
Reclassification of exchange differences relating to the disposal of a subsidiary	**1.2**	–
Share-based payments	**1.1**	1.4
	87.7	88.9
Changes in operating assets and liabilities:		
(Increase)/decrease in inventories	**(1.6)**	0.4
Increase in operating receivables	**(0.7)**	(66.8)
Increase in operating liabilities	**8.5**	6.7
	6.2	(59.7)
Income taxes paid	**(35.8)**	(23.4)
Net cash generated from operating activities	**58.1**	5.8

14. Fair value and financial instruments

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

Borrowings – senior secured facility

The fair value of the senior secured facility is determined by matching the maturity profile of the amounts utilised under the facility to market interest rates available to the Group for borrowings with similar security, maturity and repayment profiles. At 31 March 2019 interest charged under the facility is representative of market rates currently available to the Group and therefore the carrying amount approximates fair value.

Fair value measurements

Fair value hierarchy

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

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

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

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

Recurring and non-recurring fair value measurements

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

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

As at (in $ millions)	**2019 31 Mar Level 1**	**2019 31 Mar Level 2**	**2019 31 Mar Level 3**	2018 31 Dec Level 1	2018 31 Dec Level 2	2018 31 Dec Level 3
Recurring fair value measurements						
Financial assets measured at fair value through profit or loss:						
Derivative instruments	**–**	**3.4**	**–**	–	11.2	–
Other financial assets	**–**	**–**	**–**	15.9	–	–
Financial liabilities measured at fair value through profit or loss:						
Derivative instruments	**–**	**(8.5)**	**–**	–	(7.1)	–
Contingent consideration	**–**	**–**	**(47.8)**	–	–	(47.7)

During the period ended 31 March 2019 there were no transfers between levels of the fair value hierarchy. The Group accounts for transfers between levels of the fair value hierarchy from the date of the event or change in circumstance that caused the transfer.

Fair value techniques and inputs

Financial assets and liabilities mandatorily measured at fair value through profit or loss

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

- Forward foreign exchange contracts and embedded derivatives
  The fair value of outstanding forward foreign exchange contracts and embedded derivatives was calculated using quoted foreign exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.
- Other financial assets
  Other financial assets comprise investments in non-strategic equity securities disclosed as Other financial assets within Current assets on the Consolidated Balance Sheet. Fair value was determined using quoted prices.
- Contingent consideration
  The fair value of contingent consideration is determined based on current expectations of the achievement of specific targets and milestones and calculated using the discounted cash flow method and unobservable inputs.

Financial assets measured at fair value through other comprehensive income and designated as such at initial recognition

The Group's financial assets and liabilities measured at fair value through other comprehensive income and designated as such at initial recognition comprised:

- Other financial assets
  Strategic financial investments in unlisted companies are disclosed as Other financial assets within Non-current assets on the Consolidated Balance Sheet. The Group has concluded that due to their nature, in the case of each investment, there are a wide range of possible fair value measurements with insufficient recent information available to accurately measure fair value. As a result the investments are carried at cost.

15. Post balance sheet events

Share repurchase programme

Between 1 April 2019 and 30 April 2019 the Group repurchased 2,657,418 shares for a consideration of $34.5 million as part of the share repurchase programme announced in February 2019.

Cancellation of shares held in treasury

On 2 May 2019, in accordance with the delegation of authority given to the Board at the Extraordinary General Meeting of shareholders held on 27 November 2014, 15,000,000 shares held in treasury will be cancelled.

Shareholder resolution on Special Dividend at Annual General Meeting

The Annual General Meeting of shareholders of Subsea 7 S.A. took place on 17 April 2019. 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 1.50 per share, equivalent to a total dividend of approximately $55 million. The dividend will be paid on 3 May 2019.