Subsea 7 S.A. Announces Third Quarter 2017 Results

Luxembourg – 9 November 2017 – Subsea 7 S.A. (the Group) (Oslo Børs: SUBC, ADR: SUBCY, ISIN: LU0075646355) announced today results for the third quarter which ended 30 September 2017.

Third Quarter highlights:

- Good operational and financial performance in all three Business Units: SURF and Conventional, i-Tech Services and Renewables and Heavy Lifting
- Adjusted EBITDA margin of 24% reflected fewer large projects in the final stages of completion
- New awards and escalations of $538 million contributed to order backlog of $5.3 billion
- Effective fleet management resulted in 78% Active Vessel Utilisation
- Industry conditions remained challenging; awards to market expected to increase in the first half of 2018

	Three Months Ended		Nine Months Ended	
For the period (in $ millions, except Adjusted EBITDA margin and per share data)	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Revenue	**1,063**	928	**2,983**	2,635
Adjusted EBITDA[(a)]	**250**	289	**858**	854
Adjusted EBITDA margin[(a)]	**24%**	31%	**29%**	32%
Net operating income	**149**	195	**553**	566
Net income	**111**	149	**403**	432
Earnings per share – in $ per share				
Basic	**0.35**	0.46	**1.22**	1.33
Diluted[(b)]	**0.34**	0.44	**1.18**	1.26

As at (in $ millions)	**30 Sep 2017 Unaudited**	30 Jun 2017 Unaudited
Backlog	**5,292**	5,704
Cash and cash equivalents	**1,524**	1,474
Borrowings	**647**	650

(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.

Jean Cahuzac, Chief Executive Officer, said:

'Strong execution and continued focus on cost control in all three of our Business Units drove good financial performance for the Group in the third quarter. Our actions to strengthen and grow our business have diversified our income by adding significant new revenues to the Group in the conventional and renewables market segments.

Our project portfolio composition is changing as we complete the remaining SURF projects that were awarded prior to the downturn. Major awards to market in the last three years have been more price-competitive and relatively few in number. As a result of the change in our mix of activity, our Adjusted EBITDA percentage margin has begun to decline from the exceptionally high levels reported since the second half of 2015.

Our differentiated service offering, collaborative approach and early actions to reduce costs have enabled our clients to sanction and award several offshore projects despite the lower oil price. Although the market environment remains challenging, we are seeing a gradual recovery in tendering activity and still expect the number of awards to the market to increase in the first half 2018.'

Operational highlights

Good progress was achieved on the Beatrice wind farm project with almost all the piles installed by the quarter end. Installation of the wind turbine jackets by the heavy lift vessel *Oleg Strashnov* commenced in August and 24 jackets had been installed by the end of September.

Several SURF projects were substantially completed in the third quarter including the Clair Ridge, Callater and Western Isles projects, offshore UK, and the Stampede project in the US Gulf of Mexico. Offshore Norway, offshore operations were completed on the Maria project and the partnership-led ODA project progressed well. Offshore Egypt, the Atoll and West Nile Delta Phase Two (GFR) projects progressed well, as did the OCTP SURF project, offshore Ghana. Subsea Integration Alliance progressed with engineering and procurement on the integrated Mad Dog 2 project in the US Gulf of Mexico. In the Middle East, the newly acquired conventional Hasbah project progressed well.

i-Tech Services performed inspection, maintenance and repair activities consistently well and good progress was made on the Emergency Pipeline Repair System project, offshore Australia.

Active Vessel Utilisation was 78% in the third quarter and Total Vessel Utilisation was 69%. Utilisation of the life of field vessels reflected the release of two chartered vessels back to their owners in the quarter, aligning capacity to projected market activity. Offshore Brazil, all seven PLSVs on long-term contracts reported high levels of utilisation with *Seven Waves* recommencing activity after repairs to its lay-system.

Financial highlights

Third quarter revenue of $1,063 million was 15% higher than the prior year comparative period, largely due to increased activity in renewables partly offset by lower revenue from SURF projects. Adjusted EBITDA of $250 million was 13% lower than the prior year and included the recognition of $13 million losses from joint ventures and associates. Adjusted EBITDA margin was 24%, which reflected fewer projects in the final stages of completion, lower offshore activity levels and more competitive pricing on projects awarded during the downturn, partly offset by continued good execution and cost discipline. Diluted earnings per share was $0.34, a decrease of 23% on the prior year period.

The Group had a strong financial and liquidity position with cash and cash equivalents of $1.5 billion and net cash of $877 million as at 30 September 2017. In the third quarter, a commitment was made to invest up to $300 million in a new-build reel-lay vessel, with expected delivery in 2020, timed to meet a projected increase in offshore activity. This vessel will install complex pipe-in-pipe systems, including Subsea 7's proprietary Electrically Heat Traced Flowline, which enables long-distance tie-back developments.

Order intake and contract awards

At 30 September 2017 order backlog was $5.3 billion. Subsea 7's new awards and escalations totalled $538 million in the third quarter, including the award of the Fortuna project, offshore Equatorial Guinea, and extensions to three long-term contracts for PLSVs, offshore Brazil. Tendering activity and project sanctions have increased from the very low levels at the trough of the cycle, however pricing has remained competitive.

Outlook

Subsea 7 guidance for the full year 2017 is unchanged. Revenue is expected to be higher in 2017 compared to 2016, and Adjusted EBITDA percentage margin is expected to be lower compared to the record levels reported in 2016. For 2018, revenue is expected to be broadly in line with the Group's forecast for 2017 and Adjusted EBITDA percentage margin is expected to be significantly lower.

Assuming that global energy prices sustain current levels and cost reductions identified by the industry are consistently delivered, there is reason to believe that the number of awards to the market could increase in the first half of 2018.

Conference Call Information

Lines will open 15 minutes prior to conference call.

Date: 9 November 2017

Time: 12:00 UK Time

Conference ID: 52366968#

	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 682643#) will be available from:

Date: 9 November 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.

Third Quarter 2017

Revenue
Revenue for the quarter was $1.1 billion, an increase of $136 million or 15% compared to Q3 2016. The year-on-year increase in revenue was driven by a significant increase within the Renewables and Heavy Lifting Business Unit, mainly related to the Beatrice wind farm 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 $250 million and 24% respectively, compared to $289 million and 31% in Q3 2016. The reduced Adjusted EBITDA margin in Q3 2017 reflected fewer projects in the final stages of completion, lower offshore activity levels and more competitive pricing on projects awarded during the downturn within the SURF and Conventional and i-Tech Services Business Units, partially offset by continued cost discipline and good operational performance. Share of net income of associates and joint ventures was reduced in Q3 2017 compared with the prior year period, the lower contribution reflected the acquisition of Seaway Heavy Lifting in March 2017 which is now a wholly-owned subsidiary of the Group, having previously been recognised as an equity-accounted joint venture. In addition the share of net income of associates and joint ventures in Q3 2017 was adversely impacted by $11 million as a result of an impairment recognised within the SapuraAcergy joint venture in relation to the *Sapura 3000* vessel, following the announcement of the dissolution of the joint venture and subsequent sale of the vessel.

Net operating income
Net operating income for the quarter was $149 million, compared to net operating income of $195 million in Q3 2016. The decrease in net operating income was due to:

- lower activity in SURF and Conventional and i-Tech Services Business Units compared to Q3 2016

partially offset by:

- increased contribution within the Renewables and Heavy Lifting Business Unit, mainly related to the Beatrice wind farm project and the inclusion of the consolidated results of Seaway Heavy Lifting, which was acquired in March 2017;
- the absence of a $52 million restructuring charge related to resizing and cost reduction measures recognised in Q3 2016.

Net income
Net income was $111 million in the quarter, down $38 million or 25% compared to Q3 2016. This was primarily due to

- a decrease in net operating income;
- net foreign currency losses of $28 million in Q3 2017, recognised within other gains and losses, largely reflecting the weakening of the US dollar against various functional currencies, compared to $8 million net foreign currency losses in Q3 2016

partially offset by:

- a taxation charge of $12 million in the quarter, compared to $37 million in Q3 2016. The effective rate of tax for Q3 2017 was 9% compared to 20% for Q3 2016. The effective tax rate in Q3 2017 was favourably impacted by a reduction in the full year forecast effective tax rate based on the mix of jurisdictions where profits are generated.

Earnings per share
Diluted earnings per share was $0.34 for the quarter compared to $0.44 in Q3 2016, calculated using a weighted average number of shares of 341 million and 343 million respectively.

Cash and cash equivalents
Cash and cash equivalents was $1.5 billion at 30 September 2017, an increase of $50 million in the quarter. The movement in cash and cash equivalents during the quarter was mainly attributable to:

- $93 million of net cash generated from operating activities;
- dividends received from joint ventures of $30 million

partially offset by:

- purchases of property, plant and equipment of $54 million, which included the first payment related to the construction of a new reel-lay vessel and associated pipelay equipment; and
- net cash used in financing activities of $30 million, which included the cash settlement of $23 million related to convertible bonds repurchased during the second quarter.

Borrowings
Borrowings decreased to $647 million at 30 September 2017 from $650 million at 30 June 2017.

Nine months ended 30 September 2017

Revenue
Revenue for the nine months ended 30 September 2017 was $3.0 billion, an increase of $349 million or 13% compared to 2016. The year-on-year increase in revenue was driven by a significant increase within the Renewables and Heavy Lifting Business Unit, mainly related to the Beatrice wind farm 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 were $858 million and 29% respectively compared to $854 million and 32% for 2016. The reduction in the Adjusted EBITDA margin in 2017 reflected lower offshore activity levels and more competitive pricing on projects awarded during the downturn within the SURF and Conventional and i-Tech Services Business Units, partially offset by continued cost discipline and good operational performance. Share of net income of associates and joint ventures was reduced in 2017 compared with the prior year period. The lower contribution reflected the acquisition of Seaway Heavy Lifting in March 2017 which is now a wholly-owned subsidiary of the Group, having previously been recognised as an equity-accounted joint venture. In addition the Group's share of net income of associates and joint ventures was adversely impacted by a $13 million impairment charge recognised in the second

quarter by the Normand Oceanic AS joint venture in relation to the *Normand Oceanic* vessel and, in the third quarter, an impairment charge of $11 million within the SapuraAcergy joint venture in relation to the *Sapura 3000* vessel.

Net operating income

Net operating income for the nine months ended 30 September 2017 was $553 million, a decrease of $13 million compared to 2016. This was primarily due to:

- lower activity in SURF and Conventional and i-Tech Services Business Units

partially offset by:

- increased contribution from the Renewables and Heavy Lifting Business Unit, mainly related to the Beatrice wind farm project and the consolidation of the results of Seaway Heavy Lifting, which was acquired in March 2017; and
- the absence of a $105 million restructuring charge related to resizing and cost reduction measures recognised in the nine months ended 30 September 2016.

Net income

Net income for the nine months ended 30 September 2017 was $403 million, compared to $432 million in 2016. This was primarily due to:

- a decrease of $13 million in net operating income;
- a net foreign currency loss of $59 million in 2017, recognised within other gains and losses, compared to a $29 million gain in 2016, largely reflecting the weakening of the US dollar against various functional currencies in 2017

partially offset by:

- a reduction of $39 million in the taxation charge.

The effective tax rate for the nine months ended 30 September 2017 was 25% compared to 28% in 2016.

Earnings per share

Diluted earnings per share was $1.18 for the nine months ended 30 September 2017 compared to $1.26 in 2016, calculated using a weighted average number of shares of 342 million and 343 million respectively.

Cash and cash equivalents

Cash and cash equivalents at 30 September 2017 was $1.5 billion compared to $1.7 billion at 31 December 2016. The movement in cash and cash equivalents during the nine month period to 30 September 2017 was mainly attributable to:

- $191 million of net cash generated from operating activities, which included an adverse movement in operating assets and liabilities of $559 million

offset by:

- net cash used in investing activities of $211 million, which included:
    - $149 million net cash disbursed in acquiring the remaining 50% ownership interest in Seaway Heavy Lifting and certain businesses of ECS; and
    - $116 million related to the purchase of property, plant and equipment, including the Ingleside spoolbase and the commencement of construction of a new reel-lay vessel.
- net cash used in financing activities of $129 million, which included:
    - dividends paid to equity shareholders of the parent company of $191 million;
    - repayment of borrowings of $145 million;
    - repurchase of convertible bonds for $77 million

    partially offset by:

    - $301 million drawn down against the export credit agency (ECA) senior secured facility.

Borrowings

Borrowings increased to $647 million at 30 September 2017 from $427 million at 31 December 2016. During the nine months ended 30 September 2017 the Group drew down $301 million of funds against its export credit agency (ECA) senior secured facility. In March 2017, the Group recognised $125 million of borrowings assumed on the acquisition of Seaway Heavy Lifting, this was repaid in full in June 2017. During the nine month period to 30 September 2017 the Group repurchased $78 million (par value) of the $700 million 1.00% convertible bonds for $77 million.

Business Unit Highlights

Third Quarter 2017

SURF and Conventional

Revenue for the quarter was $755 million, a decrease of $47 million or 6% compared to Q3 2016.

During the quarter the Western Isles project, offshore UK, and the Stampede project, in the Gulf of Mexico, were substantially completed. Work progressed during the quarter on the Maria project, offshore Norway, the West Nile Delta Phase Two and Atoll Field Development projects, both offshore Egypt, the Hasbah project, offshore Saudi Arabia, and the OCTP SURF project, offshore Ghana. In Brazil there were high levels of PLSV utilisation under long-term contracts with Petrobras with *Seven Waves* recommencing operations following the completion of repairs to its lay-tower.

Net operating income was $103 million in the quarter, a decrease of $111 million or 52% compared to Q3 2016. The decrease in net operating income reflected fewer projects in the final stages of completion, lower offshore activities levels and underlying downwards margin pressure.

i-Tech Services

Revenue for Q3 2017 was $76 million, a decrease of $21 million or 21% compared to Q3 2016. ROV support activity decreased across the fleet due to a reduction in active drill rigs and Inspection, Maintenance and Repair (IMR) activity decreased as the Emergency Pipeline Repair System project, offshore Australia, neared completion.

Net operating income was $6 million in Q3 2017 compared to $19 million in Q3 2016. The reduction in net operating income reflected lower activity levels and underlying pricing pressure driven by highly competitive market conditions.

Renewables and Heavy Lifting

Revenue was $232 million in Q3 2017 compared to $30 million in Q3 2016. Revenue mainly related to the Beatrice wind farm project. Net operating income was $45 million in Q3 2017 compared to $8 million in Q3 2016.

The Renewables and Heavy Lifting results for Q3 2017 benefitted from the consolidation of Seaway Heavy Lifting following its acquisition by the Group in March 2017.

Nine months ended 30 September 2017

SURF and Conventional

Revenue was $2.0 billion, a decrease of $337 million or 15% compared to 2016, reflecting lower activity levels.

During the period the West Nile Delta Phase One project, offshore Egypt, the Coulomb and Stampede projects, in the US Gulf of Mexico, and the Western Isles project, offshore UK, were substantially completed. There was significant progress on the Catcher and Culzean projects, offshore UK, the Maria project, offshore Norway, the West Nile Delta Phase Two, Atoll Field Development and West Nile Delta platform extension and tie in projects, all offshore Egypt, the Hasbah project, offshore Saudi Arabia and the OCTP SURF project, offshore Ghana. In Brazil, PLSV activity benefitted from the addition of *Seven Sun* and *Seven Cruzeiro* to the fleet compared with the prior year period with *Seven Waves* recommencing operations during the third quarter, following the completion of repairs to its lay-tower.

Net operating income was $416 million, a decrease of $153 million or 27% compared to 2016. The reduction in net operating income reflected lower activity levels compared with the prior year period, fewer large projects in their commercial close-out stages and underlying downwards margin pressure.

i-Tech Services

Revenue was $235 million, a decrease of $57 million or 20% compared to 2016. ROV support activity decreased across the fleet due to a reduction in active drill rigs and there was a reduction in Inspection, Maintenance and Repair (IMR) activity in most regions compared to 2016.

Net operating income was $28 million for the nine months to 30 September 2017 compared to $47 million in 2016. The reduction in net operating income reflected lower activity levels and underlying pricing pressure driven by highly competitive market conditions.

Renewables and Heavy Lifting

Revenue was $777 million compared to $34 million in 2016, revenue mainly related to the Beatrice wind farm project.

Net operating income was $93 million compared to net operating income of $38 million in 2016. The results benefitted from high levels of activity on the Beatrice wind farm project and the consolidation of Seaway Heavy Lifting following its acquisition by the Group in March 2017.

Asset Development and Activities

Vessel Utilisation

Total Vessel Utilisation for the quarter was 69% compared with 75% in Q3 2016. Active Vessel Utilisation, which excludes stacked vessel days, was 78% compared to 91% in Q3 2016.

As at 30 September 2017 there were 36 vessels in the total fleet, comprised of 31 active vessels, four stacked vessels and one vessel under construction. The active fleet included *Sapura 3000* which was owned and operated by the SapuraAcergy joint venture and is excluded from the utilisation calculations. On 17 October 2017, *Sapura 3000* was sold by SapuraAcergy to a subsidiary of Sapura Energy Berhad and from that date the vessel no longer formed part of the Subsea 7 fleet.

Asset Development

In September 2017 the Group announced its intention to construct a new reel-lay vessel and associated equipment. The cost, excluding capitalised interest, is expected to be below $300 million.

Backlog

At 30 September 2017 backlog was $5.3 billion, a reduction of $0.4 billion compared with 30 June 2017. Order intake totalling $538 million, comprising new awards and project escalations, was recorded in the quarter and there was a favourable exchange rate impact of approximately $100 million.

$4.2 billion of the backlog at 30 September 2017 related to the SURF and Conventional Business Unit, (which included $1.5 billion related to long-term day-rate contracts for PLSV's in Brazil), $0.3 billion related to the i-Tech Services Business Unit and $0.8 billion related to the Renewables and Heavy Lifting Business Unit. $1.0 billion of this backlog is expected to be executed in 2017; $2.6 billion in 2018 and $1.7 billion in 2019 and thereafter. Backlog related to associates and joint ventures was excluded from these figures.

Subsea 7 S.A.
Condensed Consolidated Income Statement

(in $ millions)	Three Months Ended 30 Sep 2017 Unaudited	Three Months Ended 30 Sep 2016 Unaudited	Nine Months Ended 30 Sep 2017 Unaudited	Nine Months Ended 30 Sep 2016 Unaudited
Revenue	**1,063.3**	927.8	**2,983.0**	2,634.5
Operating expenses	**(836.8)**	(680.7)	**(2,229.4)**	(1,937.6)
Gross profit	**226.5**	247.1	**753.6**	696.9
Administrative expenses	**(64.2)**	(62.9)	**(169.7)**	(184.4)
Share of net (loss)/income of associates and joint ventures	**(13.1)**	10.5	**(31.4)**	53.3
Net operating income	**149.2**	194.7	**552.5**	565.8
Finance income	**6.0**	1.2	**16.9**	11.0
Remeasurement gain on business combination	**–**	–	**42.2**	–
Other gains and losses	**(26.3)**	(7.9)	**(61.2)**	29.3
Finance costs	**(6.2)**	(1.8)	**(15.2)**	(3.5)
Income before taxes	**122.7**	186.2	**535.2**	602.6
Taxation	**(11.6)**	(37.3)	**(132.0)**	(171.0)
Net income	**111.1**	148.9	**403.2**	431.6
Net income attributable to:				
Shareholders of the parent company	**113.3**	150.7	**398.1**	433.5
Non-controlling interests	**(2.2)**	(1.8)	**5.1**	(1.9)
	111.1	148.9	**403.2**	431.6

Earnings per share	**$ per share**	$ per share	**$ per share**	$ per share
Basic	**0.35**	0.46	**1.22**	1.33
Diluted[(a)]	**0.34**	0.44	**1.18**	1.26

(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 30 Sep 2017 Unaudited	Three Months Ended 30 Sep 2016 Unaudited	Nine Months Ended 30 Sep 2017 Unaudited	Nine Months Ended 30 Sep 2016 Unaudited
Net income	**111.1**	148.9	**403.2**	431.6
Other comprehensive income				
Items that may be reclassified to the income statement in subsequent periods:				
Foreign currency translation gains/(losses)	**82.1**	0.7	**142.9**	(143.9)
Cash flow hedges:				
Net fair value gains arising	**–**	–	**–**	7.3
Reclassification adjustments for amounts recognised in the Consolidated Income Statement	**–**	–	**–**	(10.0)
Share of other comprehensive income of associates and joint ventures	**–**	0.8	**0.5**	1.5
Reclassification adjustment relating to business combination	**–**	–	**9.0**	–
Tax relating to components of other comprehensive income which may be reclassified	**(2.1)**	(15.7)	**(1.7)**	(1.2)
Other comprehensive income/(loss)	**80.0**	(14.2)	**150.7**	(146.3)
Total comprehensive income	**191.1**	134.7	**553.9**	285.3
Total comprehensive income attributable to:				
Shareholders of the parent company	**192.5**	135.9	**549.3**	283.5
Non-controlling interests	**(1.4)**	(1.2)	**4.6**	1.8
	191.1	134.7	**553.9**	285.3

Subsea 7 S.A.
Condensed Consolidated Balance Sheet

As at (in $ millions)	30 Sep 2017 Unaudited	31 Dec 2016 Audited
Assets		
Non-current assets		
Goodwill	**700.5**	627.7
Intangible assets	**51.1**	34.9
Property, plant and equipment	**4,686.7**	4,123.5
Interest in associates and joint ventures	**60.9**	378.5
Advances and receivables	**23.3**	34.4
Derivative financial instruments	**3.5**	25.2
Retirement benefit assets	**0.3**	0.3
Deferred tax assets	**17.1**	13.2
	5,543.4	5,237.7
Current assets		
Inventories	**44.4**	39.0
Trade and other receivables	**720.5**	499.6
Derivative financial instruments	**41.4**	53.2
Assets classified as held for sale	**–**	0.7
Construction contracts – assets	**279.8**	79.7
Other accrued income and prepaid expenses	**172.3**	216.7
Restricted cash	**6.6**	–
Cash and cash equivalents	**1,524.2**	1,676.4
	2,789.2	2,565.3
Total assets	**8,332.6**	7,803.0
Equity		
Issued share capital	**654.7**	654.7
Treasury shares	**(31.5)**	(31.5)
Paid in surplus	**3,041.0**	3,227.5
Equity reserve	**41.3**	50.2
Translation reserve	**(506.7)**	(689.1)
Other reserves	**(29.7)**	(40.2)
Retained earnings	**2,681.7**	2,411.9
Equity attributable to shareholders of the parent company	**5,850.8**	5,583.5
Non-controlling interests	**53.6**	(46.9)
Total equity	**5,904.4**	5,536.6
Liabilities		
Non-current liabilities		
Non-current portion of borrowings	**264.3**	–
Retirement benefit obligations	**29.8**	9.9
Deferred tax liabilities	**58.7**	60.7
Provisions	**74.7**	61.9
Contingent liability recognised	**8.0**	7.5
Derivative financial instruments	**0.8**	12.2
Other non-current liabilities	**44.7**	51.6
	481.0	203.8
Current liabilities		
Trade and other liabilities	**1,025.5**	823.7
Derivative financial instruments	**29.4**	40.7
Current tax liabilities	**237.6**	120.0
Current portion of borrowings	**382.6**	427.3
Provisions	**53.4**	108.6
Construction contracts – liabilities	**212.7**	536.2
Deferred revenue	**6.0**	6.1
	1,947.2	2,062.6
Total liabilities	**2,428.2**	2,266.4
Total equity and liabilities	**8,332.6**	7,803.0

Subsea 7 S.A.

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 30 September 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	–	–	–	–	–	–	398.1	398.1	5.1	403.2
Foreign currency translation gains/(losses)	–	–	–	–	143.4	–	–	143.4	(0.5)	142.9
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	–	–	–	–	(1.7)	–	–	(1.7)	–	(1.7)
Total comprehensive income	**–**	**–**	**–**	**–**	**146.2**	**5.0**	**398.1**	**549.3**	**4.6**	**553.9**
Transactions with owners										
Dividends declared and paid	–	–	(191.1)	–	–	–	–	(191.1)	–	(191.1)
Equity component of convertible bonds	–	–	–	(8.9)	–	–	8.9	–	–	–
Share-based payments	–	–	4.6	–	–	–	–	4.6	–	4.6
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	**–**	**–**	**(186.5)**	**(8.9)**	**36.2**	**5.5**	**(128.3)**	**(282.0)**	**95.9**	**(186.1)**
Balance at 30 September 2017	**654.7**	**(31.5)**	**3,041.0**	**41.3**	**(506.7)**	**(29.7)**	**2,681.7**	**5,850.8**	**53.6**	**5,904.4**

For the nine months ended 30 September 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/(loss)	–	–	–	–	–	–	433.5	433.5	(1.9)	431.6
Foreign currency translation (losses)/gains	–	–	–	–	(147.6)	–	–	(147.6)	3.7	(143.9)
Cash flow hedges	–	–	–	–	–	(2.7)	–	(2.7)	–	(2.7)
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	1.5	–	1.5	–	1.5
Tax relating to components of other comprehensive income	–	–	–	–	(1.9)	0.7	–	(1.2)	–	(1.2)
Total comprehensive (loss)/income	**–**	**–**	**–**	**–**	**(149.5)**	**(0.5)**	**433.5**	**283.5**	**1.8**	**285.3**
Transactions with owners										
Dividends declared	–	–	–	–	–	–	–	–	(2.5)	(2.5)
Equity component of convertible bonds	–	–	–	(9.5)	–	–	9.5	–	–	–
Share-based payments	–	–	5.1	–	–	–	–	5.1	–	5.1
Total transactions with owners	**–**	**–**	**5.1**	**(9.5)**	**–**	**–**	**9.5**	**5.1**	**(2.5)**	**2.6**
Balance at 30 September 2016	**654.7**	**(31.7)**	**3,228.1**	**53.7**	**(602.3)**	**(56.3)**	**2,419.5**	**5,665.7**	**(31.6)**	**5,634.1**

Subsea 7 S.A.
Condensed Consolidated Cash Flow Statement

(in $ millions)	Nine Months Ended 30 Sep 2017 Unaudited	Nine Months Ended 30 Sep 2016 Unaudited
Net cash generated from operating activities	**190.6**	712.8
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	**0.6**	16.7
Purchases of property, plant and equipment	**(115.5)**	(275.9)
Purchases of intangible assets	**(3.6)**	(0.9)
Loans to third parties	**(25.0)**	–
Loan repayments from third parties	**25.0**	–
Completion payments to acquire subsidiary	**(1.6)**	–
Loans to associates and joint ventures	**(0.4)**	(8.6)
Loans to non-controlling interests	**(0.2)**	–
Loan repayments from joint ventures	**1.1**	–
Advances from joint ventures	**10.0**	–
Repayment of loans to associates and joint ventures	**–**	69.6
Interest received	**16.9**	11.0
Dividends received from associates and joint ventures	**30.5**	20.2
Acquisition of businesses (net of cash acquired)	**(149.0)**	(18.0)
Net cash used in investing activities	**(211.2)**	(185.9)
Cash flows from financing activities		
Interest paid	**(8.1)**	(7.0)
Proceeds from borrowings	**301.2**	–
Repayment of borrowings	**(145.1)**	–
Repayment of derivative financial instrument	**(8.0)**	–
Proceeds from reissuance of ordinary shares	**0.2**	–
Dividends paid to non-controlling interests	**(0.5)**	(2.1)
Dividends paid to shareholders of the parent company	**(191.2)**	–
Repurchase of convertible bonds	**(77.3)**	(75.9)
Net cash used in financing activities	**(128.8)**	(85.0)
Net (decrease)/increase in cash and cash equivalents	**(149.4)**	441.9
Cash and cash equivalents at beginning of period	**1,676.4**	946.8
Movement in restricted cash balances	**(6.6)**	–
Effect of foreign exchange rate movements on cash and cash equivalents	**3.8**	8.7
Cash and cash equivalents at end of period	**1,524.2**	1,397.4

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 8 November 2017.

2. Basis of preparation

The Condensed Consolidated Financial Statements for the period 1 January 2017 to 30 September 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

In addition, following the business combinations completed during the nine months ended 30 September 2017, management were required to make accounting judgements on the following:

- Purchase price allocation

Following the acquisition of the 50% of shares, not already owned by the Group, of Seaway Heavy Lifting Holding Limited and certain businesses of EMAS Chiyoda Subsea, the consideration paid and the acquired assets and assumed liabilities are subject to an ongoing fair value exercise in accordance with IFRS 3 'Business combinations'. This process results in valuation adjustments being made to a number of acquired assets and assumed liabilities and in some cases, the measurement and recognition of previously unrecognised intangible assets and liabilities for contingent consideration. Estimates of fair value include valuations from expert third parties and in some cases the use of significant management estimates and assumptions where market valuations are not available. Fair value adjustments are provisional in nature and are subject to change throughout the measurement period, which shall not exceed one year from the acquisition date, for each acquisition.

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 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, such as 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, such as 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 significant portion of the Corporate Business Unit’s costs are allocated to the other operating segments based on a percentage of their external revenue.

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

For the three months ended 30 September 2017

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	**754.7**	**76.2**	**232.4**	**–**	**1,063.3**
Net operating income/(loss)	**102.7**	**5.8**	**44.5**	**(3.8)**	**149.2**
Finance income					**6.0**
Other gains and losses					**(26.3)**
Finance costs					**(6.2)**
Income before taxes					**122.7**

For the three months ended 30 September 2016

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	801.2	96.7	29.9	–	927.8
Net operating income/(loss)	213.5	18.7	7.7	(45.2)	194.7
Finance income					1.2
Other gains and losses					(7.9)
Finance costs					(1.8)
Income before taxes					186.2

For the nine months ended 30 September 2017

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	**1,970.7**	**235.0**	**777.3**	**–**	**2,983.0**
Net operating income	**416.4**	**27.7**	**93.3**	**15.1**	**552.5**
Finance income					**16.9**
Remeasurement gain on business combination					**42.2**
Other gains and losses					**(61.2)**
Finance costs					**(15.2)**
Income before taxes					**535.2**

For the nine months ended 30 September 2016

(in $ millions) Unaudited	SURF and Conventional	i-Tech Services	Renewables and Heavy Lifting	Corporate	Total
Revenue	2,308.0	292.3	34.1	0.1	2,634.5
Net operating income/(loss)	569.5	46.8	37.7	(88.2)	565.8
Finance income					11.0
Other gains and losses					29.3
Finance costs					(3.5)
Income before taxes					602.6

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		Nine Months Ended	
For the period (in $ millions)	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Net income attributable to shareholders of the parent company	**113.3**	150.7	**398.1**	433.5
Interest on convertible bonds (net of amounts capitalised)	**2.1**	–	**4.7**	–
Earnings used in the calculation of diluted earnings per share	**115.4**	150.7	**402.8**	433.5

	Three Months Ended		Nine Months Ended	
For the period (number of shares)	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Weighted average number of common shares used in the calculation of basic earnings per share	**325,864,247**	325,643,852	**325,851,993**	325,643,852
Convertible bonds	**13,176,297**	16,414,230	**14,141,754**	16,712,526
Share options and performance shares	**1,834,602**	715,038	**1,848,776**	563,767
Weighted average number of common shares used in the calculation of diluted earnings per share	**340,875,146**	342,773,120	**341,842,523**	342,920,145

	Three Months Ended		Nine Months Ended	
For the period (in $ per share)	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Basic earnings per share	**0.35**	0.46	**1.22**	1.33
Diluted earnings per share	**0.34**	0.44	**1.18**	1.26

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		Nine Months Ended	
For the period (number of shares)	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Share options and performance shares	**804,232**	1,613,360	**798,868**	1,764,631

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:

For the period (in $ millions)	Three Months Ended		Nine Months Ended	
	30 Sep 2017 Unaudited	30 Sep 2016 Unaudited	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Net operating income	**149.2**	194.7	**552.5**	565.8
Depreciation, amortisation and mobilisation	**101.2**	94.1	**305.9**	276.8
Impairment of property, plant and equipment	**–**	–	**–**	10.4
Impairment of intangible assets	**–**	0.6	**–**	0.6
Adjusted EBITDA	**250.4**	289.4	**858.4**	853.6
Revenue	**1,063.3**	927.8	**2,983.0**	2,634.5
Adjusted EBITDA margin	**23.5%**	31.2%	**28.8%**	32.4%

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

For the period (in $ millions)	Three Months Ended		Nine Months Ended	
	30 Sep 2017 Unaudited	30 Sep 2016 Unaudited	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Net income	**111.1**	148.9	**403.2**	431.6
Depreciation, amortisation and mobilisation	**101.2**	94.1	**305.9**	276.8
Impairment of property, plant and equipment	**–**	–	**–**	10.4
Impairment of intangible assets	**–**	0.6	**–**	0.6
Remeasurement gain on business combination	**–**	–	**(42.2)**	–
Finance income	**(6.0)**	(1.2)	**(16.9)**	(11.0)
Other gains and losses	**26.3**	7.9	**61.2**	(29.3)
Finance costs	**6.2**	1.8	**15.2**	3.5
Taxation	**11.6**	37.3	**132.0**	171.0
Adjusted EBITDA	**250.4**	289.4	**858.4**	853.6
Revenue	**1,063.3**	927.8	**2,983.0**	2,634.5
Adjusted EBITDA margin	**23.5%**	31.2%	**28.8%**	32.4%

9. Goodwill

The movement in goodwill during the period was as follows:

(in $ millions)	Nine Months Ended 30 Sep 2017 Unaudited	30 Sep 2016 Unaudited
At period beginning	**627.7**	766.8
Acquired in business combination	**42.0**	9.1
Exchange differences	**30.8**	(44.7)
At period end	**700.5**	731.2

10. Business combination

Seaway Heavy Lifting Holding Limited

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. During Q3 2017 there were no significant acquisition accounting adjustments relating to this business combination. For a further explanation and the related financial disclosures refer to Note 10 'Business combination' within the Group's Condensed Consolidated Financial Statements for the quarter ended 31 March 2017 at www.subsea7.com.

Acquisition of certain businesses and assets of EMAS Chiyoda Subsea (ECS)

On 29 June 2017, indirect wholly-owned subsidiaries of Subsea 7 S.A. acquired certain businesses and assets of EMAS Chiyoda Subsea. There were no significant acquisition accounting adjustments related to this business acquisition in the quarter however an exercise to determine the fair value of acquired assets and assumed liabilities remains on-going. The Group expects to record acquisition accounting adjustments during the fourth quarter of 2017. For a further explanation and the related financial disclosures refer to Note 10 'Business combination' within the Group's Condensed Consolidated Financial Statements for the quarter ended 30 June 2017 at www.subsea7.com.

11. Treasury shares

During the third quarter, 5,517 shares were used to satisfy share-based awards and 624,766 shares were transferred to Subsea 7 S.A. from an employee benefit trust in anticipation of the settlement of share awards under the Long-term Incentive Plan. Following these transactions, at 30 September 2017, the Group held 1,499,166 common shares as treasury shares, of which; 632,356 (Q2 2017: 13,107) common shares were directly held, representing 0.19% (Q2 2017: 0.01%) of the total number of issued shares, 616,434 (Q2 2017: 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 (Q2 2017: 250,376) common shares were held in a separate employee benefit trust to support specified share option awards.

12. Share repurchase programme

During the third quarter, no shares were repurchased under the Group's $200 million share repurchase programme initiated in July 2014. As at 30 September 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. Commitments and contingent liabilities

Commitments

As at 30 September 2017, the Group had entered into significant contractual commitments totalling $241.0 million relating to the construction of a new reel-lay vessel and associated pipe lay equipment.

Contingent liabilities not recognised in the Consolidated Balance Sheet

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 have been met but where the Group does not believe the likelihood of payments is probable.

As at 30 September 2017 the contingent liability (including assessed amounts, penalties and interest) amounted to BRL 695.5 million, equivalent to $219.6 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 contained in Note 4 'Critical Accounting Judgements and Key Sources of Estimation Uncertainty' of the 2016 Annual Report and Consolidated Financial Statements, the Group is currently subject to tax audits in several jurisdictions where it has, or has had, operations, including Nigeria. Among these ongoing audits, the Group's Nigerian businesses are currently subject to audit by Rivers State, Nigeria, in respect of payroll taxes for the years 2010 to 2014. No provision has been recognised in the Condensed Consolidated Balance Sheet in respect of assessments resulting from the Rivers State audits.

As at 30 September 2017 there is a contingent liability relating to the assessments received from Rivers State, which total NGN 34,190 million, equivalent to $95.0 million (31 December 2016: $nil). The Group has objected to the assessments and is currently involved in court proceedings in Nigeria to protect its assets from sequestration by Rivers State authorities in respect of one of the assessments totalling NGN 3,352 million, or $9.3 million.

The estimation of the ultimate outcome of these audits 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. This contingent liability has been disclosed but the Group does not believe the likelihood of payments is probable.

Contingent liabilities recognised in the Consolidated Balance Sheet

As part of accounting for the business combination with Subsea 7 Inc., IFRS 3 'Business Combinations' required the Group to recognise as a provision, as of the acquisition date, the fair value of contingent liabilities assumed if there was a present obligation that arose from past events, even where payment was not probable. The value of the provision recognised within the Consolidated Balance

Sheet at 30 September 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 30 September 2017 was $2.9 million (31 December 2016: $2.7 million).

14. Cash flow from operating activities

	Nine Months Ended	
For the period ended (in $ millions)	**30 Sep 2017 Unaudited**	30 Sep 2016 Unaudited
Cash flow from operating activities:		
Income before taxes	**535.2**	602.6
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**285.8**	265.7
Impairment of property, plant and equipment	**–**	10.4
Amortisation of intangible assets	**14.2**	4.9
Impairment of intangible assets	**–**	0.6
Mobilisation costs	**5.9**	6.2
Adjustments for investing and financing items:		
Remeasurement gain on business combination	**(42.2)**	–
Share of net loss/(income) of associates and joint ventures	**31.4**	(53.3)
Finance income	**(16.9)**	(11.0)
(Gain)/loss on disposal of property, plant and equipment	**(0.1)**	1.8
Loss/(gain) on repurchase of convertible bonds	**2.5**	(3.1)
Finance costs	**15.2**	3.5
Adjustments for equity items:		
Share-based payments	**4.6**	5.1
	835.6	833.4
Changes in operating assets and liabilities:		
(Increase)/decrease in inventories	**(0.2)**	0.4
(Increase)/decrease in operating receivables	**(94.3)**	45.4
Decrease in operating liabilities	**(464.2)**	(57.5)
	(558.7)	(11.7)
Income taxes paid	**(86.3)**	(108.9)
Net cash generated from operating activities	**190.6**	712.8

15. 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)	30 Sep 2017 Carrying amount Unaudited	30 Sep 2017 Fair value Unaudited	31 Dec 2016 Carrying amount Audited	31 Dec 2016 Fair value Audited
Financial liabilities				
Borrowings – convertible bonds – Level 2	**(357.8)**	**(359.8)**	(427.3)	(435.3)
Borrowings – senior secured facility – Level 2	**(289.1)**	**(289.1)**	–	–

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 0.75% (31 December 2016: 2.2%).

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 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 of the fair value hierarchy were as follows:

As at (in $ millions)	2017 30 Sep Level 2	2017 30 Sep 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	**44.9**	**–**	78.4	–
Financial liabilities:				
Financial liabilities at fair value through profit or loss – derivative instruments	**(30.2)**	**–**	(52.9)	–
Contingent consideration	**–**	**(28.9)**	–	(11.5)

During the period ended 30 September 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 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.
- 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.

16. Post balance sheet events

Borrowings – $700 million 1.0% Convertible Bonds

On 5 October 2017, the Group cancelled convertible bonds with an aggregate nominal value of $342 million, these bonds were held by the Group as a result of previous repurchases. The remaining outstanding convertible bonds with an aggregate value of $358 million were redeemed fully for cash on the maturity date of 5 October 2017.

Discontinuation of SapuraAcergy joint venture

On 17 October 2017, the Group and Sapura Energy Berhad agreed to discontinue the SapuraAcergy joint venture. SapuraAcergy is an equity accounted joint venture in which the Group holds a 50% interest. As part of the agreement, SapuraAcergy's heavy-lift and pipelay vessel, *Sapura 3000*, was sold to a subsidiary of Sapura Energy Berhad. As a result of the discontinuation of the joint venture and the sale of *Sapura 3000*, the Group has received $100 million in cash dividends, $30 million of which was received during the third quarter with the remaining $70 million received in October 2017.

Agreement to acquire Normand Oceanic joint venture

On 31 October 2017 the Group acquired from Solstadt Farstad ASA, for a nominal cash consideration, the 50% of the shares, not already owned, in its equity accounted joint ventures, Normand Oceanic AS and Normand Oceanic Chartering AS.

Effective from the date of the transaction, the Group became the sole owner of *Normand Oceanic*, a flex-lay and heavy construction vessel under long-term charter to a third party. The Group also assumed all obligations related to an outstanding bank loan of $102 million, this was repaid in full immediately following the acquisition.

As a result of the transaction the Group expects to recognise a non-cash net remeasurement loss on business combination of approximately $15 million in its fourth quarter results.